VIEWS

ON

THE CURRENCY:

IN WHICH

THE CONNEXION BETWEEN CORN AND CURRENCY

IS SHOWN;

THE NATURE OF OUR

SYSTEM OF CURRENCY EXPLAINED;

AND THE

MERITS OF THE CORN BILL,

THE BRANCH BANKS,

THE EXTENSION OF THE BANK CHARTER,

AND

THE SMALL NOTE ACT EXAMINED.

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PREFACE.

The principles of the following Work have appeared in former publications, but are more fully developed in this. Those publications have not been generally read, but were not, perhaps, without their effect. They at least have furnished the sub-stratum of more than one popular essay: if any writings on subjects of Political Economy can be called popular.

With the writings of the modern political economists, this work has nothing in common. However much the author may admire the talents and ingenuity which have been displayed by Messrs Ricardo, Mill, Tooke, Torrens, and M'Culloch, he is compelled to dissent from the chief part of their doctrines. Indeed it would hardly be fair to stop at them. The science of political economy was corrupted at its fountain head, and all which can be said is, that they have not freed it from its corruptions. Dr Adam Smith, in his Wealth of Nations, throws much light upon political science, but more darkness; and his errors and obscurities unfortunately have reference to the most important parts of his subject. The Wealth of Nations is a work, notwithstanding, of great genius; the best proof of which is, that men of genius have adopted its

errors, and reasoned upon them as unquestionable truths.

Had Dr Smith never written, it would have been better for the science. The French economists had discovered the important truth, that the produce of land forms the basis of wealth. But in their hands the value of the principle was destroyed by the use they made of it. Had it not been for Dr Smith, subsequent writers would have had one sound general principle to start from, and with the aid of experience, would have been able to arrive at more just conclusions. The Wealth of Nations, however, came like an ignis-fatuus, to mislead the future economist into bogs and quagmires, where he finds it in vain to tempt the man of plain but solid sense to follow him.

Since Dr Smith's time, consequently, not any light has been thrown upon the subject, at all proportioned to the attention which it has received. Malthus on Population, and the pamphlet of Ricardo, entitled, "The high Price of Bullion a Proof of the Depreciation of Bank Notes," together with the Report of the Bullion Committee to which that pamphlet gave rise, are the only works that have contributed in any material degree to enlarge the boundaries of the science. The former, perhaps, is the only perfect work on political economy that ever was published; and its principles have been the guide of legislation on subjects connected with popu-

lation ever since it appeared. The latter revived a doctrine of Dr Smith's, but revived it with all its errors; and was chiefly important from its connection with the events to which it referred, and the discussions to which it gave rise.

At the same time that the author is convinced more correct views on the subject of political economy are much required, he neither has the requisite qualifications nor the leisure necessary to become the founder of a new system. He may, nevertheless, contribute his mite towards the formation of one. Rome was not built in a day. Before the master mind appears, that has to give order, consistency, and beauty to the fabric, there must be useful drudges who will hew out the rude materials, and help to clear away the rubbish. One of these humble instruments, the author will be very glad if he happen to prove.

The best test of any principles must be found in their application to practice; and to this test those suggested in the following work are applied in an attempt to analyze the merits of the corn bill of 1827, and the measures of 1826 with regard to the currency.

It will be seen that while the author finds reason to approve of the corn bill, he considers the repeal of the act for the withdrawal of the small notes from circulation to be absolutely necessary. How far his views on this latter subject may be correct, must be left to the determina-

tion of the reader. But he thinks it proper to mention, that when the act was passed, he saw no objection to it. His present opinions are the result of subsequent reflection. He was under the gallery of the House of Commons, and heard the whole of the debate upon it when it was proposed; and had he been a member, would no doubt have voted in its favour.

To stile and manner, and even to great correctness, the author makes no pretension. Perspicuity has been his chief object. It may likewise be proper to mention, that the work was written and printed in the country; and was for convenience printed as it was written. If his views, therefore, on any particular point happened to enlarge or receive any modification in the progress of the work, he had no opportunity of altering what he had previously said. It was also commenced last August with the intention of having it published by Christmas; but the author was prevented by circumstances from attending to it for two or three months. It has, in consequence, been quite as much hurried as such a work ought to be. All these considerations the good-natured reader will be pleased to remember and make allowances for.

March 3rd, 1828.

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INTRODUCTION.

THE average price of Corn is always determined by the quantity of Money in circulation; and Corn Laws are a means of regulating that quantity, so as to produce a particular price. In treating of Currency, it is therefore necessary to begin with Corn; and the first hundred and thirty-six pages of this Work are chiefly devoted to proving the above proposition, and applying the principles so established to the examination of the proposed system of Corn Laws.

The remainder of the Work is devoted to an explanation of the nature of our peculiar system of Currency, and an examination of the steps taken by Government for its improvement. This may be read separately, by those who wish for information exclusively on the part of the subject to which it refers.

VIEWS

ON

THE CORN BILL

OF

1827,

&c. &c.

SECTION I.

On the Corn Bill of 1827, *the Causes which led to it, and the Principles on which it was opposed.*

Corn Bill of 1815.——During the late war, the price of corn was very high, frequently averaging throughout the year upwards of 100s. per quarter; but on the return of peace, it suffered a great fall. In August, 1812, wheat was 155s.; in March, 1813, it was 122s., from which it fell, until, in 1815, it was only 55s. per quarter.

This fall produced the greatest distress and ruin among the agriculturists. It was chiefly attributed to the importation of foreign corn, which took place in 1814; and as the farmers substantiated, before a committee of the House of Commons, that they could not grow wheat under 80s. a quarter, an act was passed to exclude foreign corn from our markets when our prices were under that level; but its importation was

admitted, for the purpose of being warehoused under the King's lock, until they reached that point.

The Agricultural Distress.—After this law was passed, corn began to rise again. The crop of 1816 was also a failure, by which the rise was accelerated and increased. In 1817, the price of wheat averaged 94s. per quarter; and in 1818, it averaged 83s. The prices of 1818, though they may now seem to have been high, were by no means the result of scarcity. The crop of 1817 was an average one in quantity, though not in quality; but there were added to it the largest importations of foreign corn we ever experienced. The wheat imported, amounted to 1,586,030 quarters. This, however, would not be more than equal to one-eighth of our annual produce, which is estimated to be 12,000,000 of quarters. If, therefore, we assume the inferior quality to have deteriorated the crop of 1817 an eighth, the supply, with the importations of 1818, might be equal to an average one. Neither could there be any superabundance in 1818; for the scarcity of the former year had completely reduced those old stocks, which the more wealthy farmers in ordinary years generally hold. The prices, however, began to fall again, and continued falling for four or five years, as follows:—

Wheat averaged in 1818, 83s. per quarter.
——————— in 1819, 72s. ————
——————— in 1820, 65s. ————
——————— in 1821, 54s. ————
——————— in 1822, 43s. ————

By this fall, the agriculturists were reduced to much greater distress than before. It affected the highest as well as the lowest—the landlord as well as the tenant; many of both were ruined, and all were injured. The misery it caused, indeed, was so great and unpre-

cedented, and continued so long, that it was emphatically termed, and has since been familiarly called, *the agricultural distress.*

Causes assigned for the Agricultural Distress.—The cause of this fall was quite inexplicable. Many reasons were assigned, and conjectures made upon the subject, but none were satisfactory. Some thought it must have been caused by the importations of 1818; but for this there was manifestly no foundation. The ports were shut in February, 1819; and no material fall took place until after the importations had ceased. Prices kept up, and there was a brisk demand during the whole time the imported corn was brought into the market.

It was by others believed to have resulted from the Bank of England having withdrawn its one-pound notes from circulation, and having returned to cash payments. There are two things undoubtedly in the composition of price:—the commodity sold, and the money paid for it; and if money be taken out of circulation, while the quantity of commodities produced is the same, the price of them must fall; for the same amount of money cannot possibly be had for them: but in order to this there must be an actual reduction in the quantity of money in circulation.

It makes no difference whether the bank, at any time, returns to cash payments, or to non-payments in cash, provided no difference in either case be made in the amount of money current—prices are not effected by the magic of a name: and it appeared that the bank had put more gold into circulation, by two or three millions, than it had taken notes out. The effect, therefore, of its returning to cash payments, was not to diminish (so far as its operations went), but to increase the amount of the circulating medium, and this could

not be the cause of the fall of prices which had occurred.

Causes assigned for the Agricultural Distress by the Committee of the House of Commons.—These various conjectures, however, ended in a committee being appointed in 1821, by the House of Commons, to investigate the subject. They sat for some time, examined a great mass of evidence, and finally made (what all must admit to have been) an able report.

In this report, after examining the different causes to which the fall had been attributed by different persons, and dissenting in a great measure from them, the committee state, that they consider the fall to have been chiefly produced by a glut caused by superabundant seasons; and the following are the reasons for that conclusion:—

"In the article of corn there is one consideration to "be constantly borne in mind, most material to ena-"ble the house and the country to arrive *at a sound* "*and safe conclusion* on this important subject, namely, "*that the price of corn fluctuates more than that of any* "*other commodity of extensive consumption, in propor-*"*tion to any excess or deficiency in the supply.*

"The cause which produces this greater suscep-"tibility in the corn market, cannot be better explain-"ed by your committee than in the following extract "from the answers of Mr Took, one of the witnesses "who were particularly examined upon this point. "Why should a different principle apply to corn than "to any other general production? Because a fall in "the price of any other commodity not of general ne-"cessity, brings the article within the reach of a greater "number of individuals; whereas *in the case of corn,* "*the average quantity is sufficient for the supply of every*

" *individual; all beyond that is an absolute depression* " *of the market for a great length of time; and a suc-* " *cession of two or three abundant seasons* must evident- " ly produce an enormously inconvenient accumulation. " Is there not a greater consumption of corn when it is " cheap, than when it is dear, as to quantity? There " may be, and possibly must be, a greater consump- " tion; but it is very evident that if the population was " adequately fed, the increased consumption from " abundance can amount to little more than waste; and " this would be a very small proportion to the whole " excess of a good harvest or two.

" In the substance of this reasoning your committee " entirely concur; and it appears to them that it can- " not be called in question without denying either that " corn is an article of general necessity and universal " consumption amongst the population of this country, " or that the demand is materially varied by the amount " of the supply. This latter proposition, except within " very narrow limits, altogether disproportioned to the " fluctuations in production, is not warranted by ex- " perience. The general truth of the observation re- " mains, therefore, unaltered by any small degree of " waste on the one side, or of economy on the other, " neither of which are sufficient to counteract *the effect* " *which opinion and speculation must have upon price,* " *when it is felt how little demand is increased by redun-* " *dancy, or checked by scantiness of supply.*"

Principles laid down by the Committee for the future Regulation of our Corn Laws.—From a principle so clearly laid down, and so important, it was natural to expect that the committee would arrive at some practical conclusion, with a view to the guidance of our future policy in regulating our corn laws, and they go on to

state :—" In order to apply *this leading principle* as affecting the trade in corn to the present state of " this country, and of our corn laws, your committee " will assume, what they believe is not far from our " actual situation, *that the annual produce of corn, the* " *growth of the United Kingdom, is upon an average* " *crop, about equal to our present annual consumption ;* " and that with such an average crop the present im" port prices, below which foreign corn is by law " altogether excluded, are fully sufficient, more espe" cially since the change in the value of our money, " to secure to the British grower the complete mono" poly of the home market. *So long as he retains that* " *monopoly, the fluctuation of prices in that market will,* " *it must be obvious, range between the* MAXIMUM *at* " *which foreign corn is admitted, or* (owing to the " mode of ascertaining the averages) some temporary " price not much beyond it, *and the* MINIMUM *to which* " *that price may be reduced by a very abundant harvest,* " *or a succession of such harvests until British corn falls* " *below the price of some foreign market, and finds a* " *vent in exportation.*"

That is to say, so long as we, by our corn laws, keep our prices much above the level of Europe we shall be constantly subject to these fluctuations; for the only way to get rid of the superabundance of a good harvest or two, is by exportation. Or, in other words, if we keep our prices at 60s. while the average of Europe is 40s. our prices must fall below 40s., say to 30s. or 35s., before any surplus can be exported, and we shall be constantly subject to such falls when ever a good harvest or two occurs in succession. But if the average of Europe were increased to 60s., or ours reduced to 40s., or some other common level, we might get rid of

our surplus by a comparatively small reduction in price.

There can be no greater evil to a country than fluctuation in prices. A great fall generally begins with throwing the manufacturing classes out of employment, and ends in ruining the agriculturists. It sweeps like a pestilence over the whole face of the country, and no sound-minded man can contemplate, for a moment, the continuance of any system of laws calculated to give rise to such effects. Having the permanent welfare of the country for their object, the duty of parliament under this view of the subject was therefore obvious, namely, to do away the existing laws, and to bring the prices of this country to a level with those of other countries as soon as possible, or to bring them as nearly so, as the circumstances of the country in other respects would permit, and this the committee recommended.

It suggested "to parliament, as a matter highly deserving of their future consideration, whether a trade in corn, constantly open to all nations of the world, and subject only to such a fixed duty as might compensate to the grower the loss of that encouragement which he received during the late war, from the obstacles thrown in the way of free importation, is not as a permanent system preferable to that state of law by which the corn trade is now regulated."

Report in Unison with Public Opinion.—This report was drawn up by Mr Huskisson, but we believe there never was a report, of which the views were less exclusively those of the party who drew it. The opinions it expressed were the views of the committee at large, and on this particular point became at once the opinions of all intelligent men.

Nor was it necessary to assume with Mr Tooke, that the population in ordinary years were adequately fed, and could not increase their consumption, in order to believe that (our home supply being on the average equal to our consumption) an abundant harvest or two would produce a great fall in prices, which could only be relieved by exportation. Mr Ricardo puts the question more reasonably in his work "On Protection to Agriculture":—

"When the quantity," he observes, "of corn at "market, from a succession of good crops, is abun- "dant, it falls in price, not in the same proportion as "the quantity exceeds the ordinary demand, but con- "siderably more. The demand for corn with a given po- "pulation must necessarily be limited; and *though it* "*may be and undoubtedly is true that, when it is abundant* "*and cheap, the quantity consumed will be increased,* "*yet it is equally certain its aggregate value will be di-* "*minished.* Suppose fourteen millions of quarters be "the ordinary demand for England, and that from a "very abundant season twenty-one millions are pro- "duced: if the remuneration price were £3 per quar- "ter, and the value of the fourteen millions of quar- "ters be £42,000,000, there cannot be the least doubt "that the twenty-one millions of quarters would be of "very considerably less value than £42,000,000. *No* "*principle can be better established than that a small* "*excess of quantity operates very powerfully upon price.* "This is true of all commodities, *but of none can it be* "*so certainly asserted as of corn,* which forms the prin- "cipal article of the food of the people. The princi- "ple I believe has never been denied by those who "have turned their attention to this subject."

A little further on he again observes:—"This, how-

"ever, is I think certain, that the aggregate value of "an abundant crop will always be considerably less "than the aggregate value of an average one, and that "the aggregate value of a very limited crop will be "considerably greater than that of an average crop. "If 100,000 loaves were sold every day in London, "and the supply should all at once be reduced to "50,000 per day, can any one doubt that the price of "each loaf would be more than doubled? The rich "would continue to consume precisely the same num-"ber of loaves, although the price was tripled or "quadrupled. If, on the other hand, 200,000 loaves, "instead of 100,000, were daily exposed for sale, could "they be disposed of without a fall of price far exceed-"ing the proportion of the excess of quantity? Why is "water without value, but because of its abundance?"

Mr Samuel Turner, who wrote a very able Pamphlet in reply to Mr Ricardo, states in answer to the above: —"It is impossible not to admire the ingenuity with "which Mr Ricardo has endeavoured, in this section, "to shew that the evils, under which the agriculturists "are now suffering, have proceeded from superabun-"dant crops, and not from any political causes. *I be-"lieve that he is right in his position, that the rise or fall "of prices, particularly on articles of a comparatively "perishable nature, such as agricultural produce, is not "regulated exactly by the ratio of the superabundant or "deficient quantity raised and brought to market.*"— *CONSIDERATIONS, &c. Page* 21.

Thus Mr Turner agrees in the principle, but differs as to the degree only, in which a good harvest would depress prices; but he does not give any sufficient reason for such difference of opinion.

Mr Malthus, who, in an article in the Quarterly

Review on the Report of the Committee of 1821, totally denied the fact assumed by Mr Tooke, that the population in ordinary years were adequately fed; is, notwithstanding, of the same opinion as to the effect of a plentiful year in depressing prices, when our home supply is, on the average, equal to the demand. He had promulgated the doctrine seven years before.— "The whole effect of restrictions on importations," he observes, "is to stint the supply of the general market, "and to raise, not to lower, the price of corn; nor is "it in their nature permanently to secure what is of "more consequence, *steadiness of price.* During the "period, indeed, in which the country is obliged re-"gularly to import foreign grain, a high duty upon it is "effectual in steadily keeping up the price of home corn, "and giving a decided stimulus to agriculture. *But "as soon as the average supply becomes equal to the "average consumption, this steadiness ceases; a plenti-"ful year will then occasion a sudden fall; and from "the average prices of the home produce being so much "higher than in the other markets of Europe, such a "fall can be but little relieved by exportation."*—*OBSERVATIONS ON THE CORN LAWS, P.* 25, *published in* 1814.

The Edinburgh Review maintained the principle still more strongly, with its usual ability; and there was hardly a writer, either on one side or the other, that did not admit it more or less. In short, public opinion, by which I mean the opinion of the most intelligent portion of the public, could not be more strongly expressed in favour of any principle, than the principle *that our home supply being equal to the demand, a good harvest or two must produce a great fall in prices, unless the market could be relieved of the excess by exportation.*

Views of Government directed to promote such an Alteration in our Corn Laws as the Report recommended.—Hence it is reasonable to suppose that the views of government would be directed to bringing about such a reform in our corn laws, as would give greater freedom to the trade in foreign corn, and have the effect of bringing the prices of Europe and this country more upon a level, either by raising the prices in other countries to our level, or reducing our prices more upon a level with theirs.

Some alteration, in 1822, was made in the law of 1815; but as it still excluded foreign corn until the prices in the home market reached 80s., the law, in its altered form, never came into operation as regarded wheat, and we shall not stop to examine it.

For the purpose of carrying their views into effect, and in order to obtain the best information that was to be had on the subject at its fountain head, ministers sent in 1825, Mr Jacob, a gentleman remarkably well qualified for the task, to Poland, Prussia, and those countries from whence corn is chiefly imported, to ascertain the quantity that this country could be supplied with, and at what prices.

By the instructions given to Mr Jacob, it appeared that ministers were desirous to render the trade as free as was consistent with maintaining prices at the level of about 60s. to 64s. for wheat by our averages.

During the session of 1826, Mr Jacob's report was presented to parliament. It was a most able document, and shewed that the foreign supplies which we could obtain at any price, however great, were quite trifling compared with our own growth. That the prices in the Baltic had always been governed by the prices in this country,—that they had risen as ours had

risen, and *vice versa;* that no great supplies could be obtained at low prices, and that a duty of ten or twelve shillings per quarter would amply afford the protection required.

Government were consequently desirous to adopt a duty of ten shillings and throw open the trade; and they obtained the consent of parliament before the session expired, that the corn then in bond should be set free on these terms.

Had this system been adopted permanently, it would have been proper with reference to the principles on which it was founded, to have also given a bounty of ten shillings on exportation. This, while it would have kept our prices ten shillings above the level of other countries, would have placed the trade on the footing of perfect freedom. Exportation from the effects of a glut would in that case as soon have taken place as had no duty been imposed; while it is probable that the duty received would have more than paid the bounty which in abundant seasons would have been granted. But before the next session, government altered the principle and rate of duty at which they proposed foreign corn should be admitted.

The Corn Bill of 1827.—In the bill of last session, instead of ten shillings, the duty proposed was 20s. with a varying scale, calculated to keep prices steady at about 60s. Winchester, or 62s. imperial measure.

It was assumed that corn could be imported at 40s., Winchester measure, and that a duty of 20s. would keep it of course at 60s.; while for every shilling that the average price was below 60s., the duty was to be increased 2s., and for every shilling that it was above 60s., it was to be reduced 2s. per quarter, until all duty ceased, with the exception of a trifling one of 1s. per qr.

The following table will shew the operation of the proposed scale of duties, imperial measure. The imperial is a fraction larger than the Winchester quarter; and it appears that this difference in measure is nearly expressed by 2s. difference in price; and as imperial measure has become the standard measure, we shall hereafter refer to it exclusively, without Winchester be expressed. This scale refers also to wheat only. Similar scales were proposed for other grain, but it is not necessary to refer to them; for the principles applicable to wheat, are applicable to corn generally.

	Average Price, Imperial Measure.		*Duty.*	*Price left to the Importer of Foreign Wheat, after Payment of the Duty.*	
	s.	s.	s.	s.	s.
If the price per quarter be	72 and upwards	...	1 ...		71
... ...	71 and under	72 ...	2 ...	69 up to	70
... ...	70	71 ...	4 ...	66 ...	67
... ...	69	70 ...	6 ...	63 ...	64
... ...	68	69 ...	8 ...	60 ...	61
... ...	67	68 ...	10 ...	57 ...	58
... ...	66	67 ...	12 ...	54 ...	55
... ...	65	66 ...	14 ...	51 ...	52
... ...	64	65 ...	16 ...	48 ...	49
... ...	63	64 ...	18 ...	45 ...	46
Assumed point of protection	62	63 ...	20 ...	42 ...	43
... ...	61	62 ...	22 ...	39 ...	40
... ...	60	61 ...	24 ...	36 ...	37
... ...	59	60 ...	26 ...	33 ...	34
... ...	58	59 ...	28 ...	30 ...	31
... ...	57	58 ...	30 ...	27 ...	28
... ...	56	57 ...	32 ...	24 ...	25
... ...	55	56 ...	34 ...	21 ...	22

The Law does not provide for relieving Glut by Exportation, as recommended by the Committee.—It being assumed that our prices will be kept by this law at about 20s. above the import price, as it is not proposed that any bounty shall be granted upon exportation, it may also be assumed that in the event of a glut from abundant harvests, the surplus could not be exported with a profit, until the price fell to 30s. or 35s.—a fall which could not take place without involving our agriculturists in as great a state of ruin and misery as they have yet experienced. It may therefore be inferred that the idea of getting rid of glut by exportation has been given up, and our agriculturists may be expected to feel themselves in that respect in as dangerous a situation as ever, however necessary in other points of view they may feel the law to be to them.

The Law calculated to induce great Stocks to be held in Bond.—The law, besides, is calculated to have another very important effect; and in the event of a scarcity an obviously desirable one. It is calculated to induce speculators to lay up great stocks in bond, ready to let out upon the market when any rise shall take place. The great fluctuations which have occurred in the price of corn, and the great premium secured by the law, from even a small rise in price, cannot fail to lead to much speculation under it.

By the evidence taken last session by the Committee of the Lords on the prices of foreign corn, it appears that it can be warehoused at Hull, and trimmed and turned, for about 2s. per quarter per annum, and in London for about 3s. 6d. It is well known, also, that if corn be kiln-dried, and be put into a warehouse in good condition, and be properly turned and taken care

of, it will keep five years without any deterioration in either quantity or quality. Mr Dimsdale, an eminent corn-factor, was asked by the above committee, what profit would be sufficient to induce a merchant to hold corn in bond; and he stated from 4 to 15 per cent. according to circumstances. Let us then take the highest profit of 15 per cent., and see what rise in the course of five years would be sufficient to induce the speculators to lay in a stock, contemplating the possibility of his having to keep it that time. We must presume that he would lay in his stock at a proper time, when the prices were below 62s., rather than when they were above it. Suppose, consequently, he purchased at 40s. in the warehouse. He would likewise calculate upon a rise in the first year, as soon as in the last; but in his estimate would assume it to take place on the average in two years and a half. He would naturally also hold it in the out-ports rather than in London, on account of the cheapness of warehouse rent, &c. In two years and a half, therefore, the expence incurred at 2s. would be 5s. per quarter; 15 per cent. on 40s. for that time would be 15s.;—in all, 20s. Now to obtain this profit, a rise of 7s. only would be necessary, while a rise of 5s. would leave a profit of 10 per cent., and a rise of 3s. a profit of about 4 per cent. If the rise took place before the two and a half years expired, the profit would be greater; but if it took place after the two and a half years had expired, it would be less, so that the one chance would balance the other.

No merchant, looking at the great rises of price which have occurred in much shorter periods of time without any very apparent deficiencies, would consider, if he laid in his stock at a low price, that he would incur the remotest risk of a loss in such a speculation;

while he would probably calculate that his chances of gain would be much more considerable than we have estimated them to be. It is natural, therefore, to conclude, that when the law is passed, great stocks will be held under it.

This Tendency of the Bill a reasonable Ground of Apprehension on the Part of the Agriculturists.—In this tendency of the bill the agriculturists saw much to apprehend. If the stock which might be accumulated would only be let out in an actual scarcity, it would be a provision happily made; but if it should be let into the market without a scarcity, by management of the corn-merchants, or by the presumed effect of a small deficiency in producing a rise much greater than the ratio of such deficiency, by the opinion of all the best informed writers on these subjects, the consequence would be the most ruinous possible. On these grounds, therefore, the bill was strenuously opposed, and in the Lords was eventually lost; though ministers intend to bring it forward again next session.

The average price of 62s. did not appear to be much objected to. No attempt was seriously made to obtain more than 4s. above it; and ministers, in their instructions to Mr Jacob, laid before parliament, assumed from 60s. to 64s., that is from 62s. to 66s. imperial measure, as the prices to which it might be proper to carry protection; giving by that means the license of their authority for a difference of opinion to that extent.

It perhaps may be said, that the bill itself provided against the whole of the corn being let suddenly out; that a great many hundred holders, living in different towns, could not act in concert, and would have differ-

ent opinions; that the slightest rise would consequently induce some to take their corn out of bond, and thus supply any small deficiency that might occasion it, without bringing any overwhelming supply into the market; that therefore the agriculturists showed a want of proper calculation in considering the effect of the bill, and that their fears respecting it were quite unreasonable.

People with much at stake, acting under the influence of fear, are not often good calculators; and are seldom very reasonable. But we must confess that it does not appear that their fears were so totally unreasonable: they must have perceived that if speculators laid in any stocks at all, it would be on the calculation of a rise without any positive scarcity. A scarcity occurs only once in ten or fifteen years, and is too remote and uncertain to be speculated upon. Great stocks, therefore, would not be laid in, except with a chance of their coming into the market, though there should be no great deficiency. Nor will it be difficult to show that these apprehensions were well founded. Suppose on the verge of harvest time, very bad weather should occur, and threaten its destruction, and prices should rise a few shillings. Let us then suppose that the weather should suddenly take up, and do away in a great measure the apprehensions which had been entertained; a re-action would no doubt be immediately experienced;—a fall would at once take place, greater probably than the rise had been. But the averages by which the duties would be payable must have been previously struck,—the fall would not affect them until a week at least after it had occurred. This would leave ample time for the merchants to enter their stock at the Custom House; and there cannot be any doubt

that in such a case, let the stock be ever so large, the whole would be thrown upon the market, though a single bushel might not be wanted. But it is not necessary to imagine an extreme case of this kind. If it be true that a small deficiency has a great effect upon prices, a small deficiency would bring the whole stock on hand into the market, though it were five times the amount of such deficiency; for as the speculators need never pay their duties until after they have ascertained by their beginning to fall, that prices have risen to their highest point, the effect of a rise under the proposed law always must be, to suspend all entries at the Custom House, either from ships or warehouses, until prices have risen as high as they will go. Corn will be entered for consumption in a falling market, but never in a rising one. When the holders perceive by comparison of this week's prices with the last, that this week's average will be higher than the last, it is obvious that they will wait and take advantage of the rise. Hence if a small deficiency should have a great effect in raising prices, the supply from the warehouses could hardly fail to be greater than such deficiency, and the market be depressed accordingly. By this the home grower would be injured, while the speculators, by getting their corn out at a very low duty, might still gain considerably, and would immediately begin a fresh speculation on the same principles. Their capital being set at liberty, and the low prices preventing further importation, except for the purpose of warehousing, they would be the only buyers of foreign corn in the market, and would immediately begin to purchase. This they would go on doing until the market had recovered, and some small deficiency should raise prices sufficiently to enable them to bring their stock out again

with profit to themselves, and with the same injury to the British farmer as before.

Entertaining, therefore, the belief that our average supplies are fully equal to our consumption,—that our corn laws, however necessary to the agricultural interests, have placed our prices upon a dangerous pinnacle, from which the least excess of supply will drive them, and that the bill in its present shape could hardly fail, in their view, to bring supplies into the market which were not wanted, by which it would be kept constantly depressed, we cannot be surprised at the strong opposition it encountered from the friends of that interest in parliament. The amendment first proposed by the Duke of Wellington to Mr Huskisson was evidently intended to prevent too much corn being entered for consumption at once; and it is not at all improbable, should the bill pass into a law, that it may be necessary to adopt some regulation founded upon the principle of that proposition.

The Opinion so generally admitted, that a small Excess or Deficiency in the Supply has a great Effect upon Prices,—the Basis on which the Apprehensions with regard to the Bill may be said to be founded.—If it should not appear, that our home supplies are equal to our consumption; but, on the contrary, that we should annually import large quantities of foreign corn, it does not appear to us, that this would in any great degree remove the objections to the bill.

In such case the prices would sooner recover from any great fall produced by an over-supply from the warehouses; as the fall would have the effect of keeping for a time all further foreign supplies out of the market. But the speculator would calculate upon this, and only proceed the more boldly in accumulat-

ing a fresh stock in the warehouse, ready to overwhelm the market as soon as ever it recovered, so as to admit the stock being thrown upon it again with a profit.

The great objection, therefore, to the bill may be said to rest on the inducement to speculate held out by it, founded upon the opinion that a small excess or deficiency in the supply of corn, will produce a great effect upon the price of it; and if the agriculturists be mistaken on this latter point, they are mistaken in common with all the most intelligent writers on these subjects.

Mr Ricardo says "It is impossible to read Mr "Tooke's able evidence before the agricultural com- "mittee of 1821, without being struck with the sur- "prising effects which an excess of supply produces on "price; and for which, in fact, there is no effectual "remedy but a reduction of quantity."—*On Protection to Agriculture, P.* 75.

"It must be recollected," observes the Edinburgh Review, "that a comparatively small excess or defi- "ciency of the usual supply of the prime necessaries of "life, causes a very great fluctuation of prices."—*No.* 72, *P.* 457.

"There is nothing in political economy more cer- "tain," observes the Westminster Review, "than that "a variation in the supply of such a commodity as "corn produces a much more than proportional va- "riation in price: a position that Mr Tooke, who has "explained so many of the complicated phenomena of "prices, has shewn to be as conformable to ob- "served facts as it is to sound reasoning."—*No.* 6, *P.* 410.

Mr Tooke, it must also be remembered, did not confine himself to delivering his opinion to the com-

mittee of 1821; but, in 1823, substantiated the principle he had laid down, by publishing an ingenious work, in which he shewed that all the great fluctuations which had occurred in the last thirty years, might be traced to the operation of the same principle. The principles of this publication have been generally approved, and it may now be considered a standard work upon the subject. Col. Torrens speaks of it, and of the principles it establishes, as follows, in the Preface to the third edition (published so recently as last year) of his work on the "Corn Trade"—a work universally admired, even by those who may question the truth of its principles:—

"To this edition have been added some facts and "reasonings originally published by the author, in "1816, in a 'Letter addressed to the Earl of Liverpool, on Agricultural Distress.' These principally "relate to the refutation, by a comparison of the "prices of corn and of silver, of the opinion that the "fluctuations in the prices of agricultural produce, "which occurred during and subsequent to the war, "were occasioned by variations in the value of the "currency; and to the statement of *the doctrine, that* "*redundant supply reduces prices in a ratio greater* "*than that of the excess.* It is a gratifying confirmation of the correctness of these principles, that, although he had not seen the publication in which "they first appeared, one of our ablest writers on "questions of Political Economy, by an original process of his own, arrived at similar conclusions. Mr "Tooke, in his work on 'High and Low Prices,' one "of the most able contributions which have of late "years been made to the science, *has established these* "*principles by an ample induction from curious and*

" *valuable facts*, and has explained in a masterly manner their extensive influence on the varying phenomena of the market."

Hence it is evident that nothing could be more generally acknowledged, or more firmly established in public opinion, than the principle, that a small excess or deficiency in the supply has a great effect upon the price of corn. This being the case, nothing could be more reasonable than the apprehensions entertained with regard to the proposed bill, by those who represented the agricultural interest in parliament. Even those who did not analyze the grounds of their hostility with the same precision as others, feeling the prices of corn to be suspended on so frail a thread, might naturally wish to keep danger at a distance. If we see any thing to alarm us, we seldom calculate how near we can go to it without being hurt, but rather how far we can keep from it; if we have the power, our natural impulse is to place ourselves out of the reach of accident. No man voluntarily brings danger to his door if he can help it, whether in the shape of magazines of corn, or magazines of any other description.

SECTION II.

On the Effect which the Supply of Corn has upon the Prices of it.

Having, in the last section, explained the nature of the proposed bill—the premium it will hold out to laying up corn in bond, and then taking it out again on any slight rise; and having further explained, that so long as it is the received opinion that a small excess, or deficiency, in the supply, will produce a great effect upon prices, this tendency of the bill must prove a great objection to it; we will now proceed to examine this principle, upon which the objection chiefly rests, and which may be termed Mr Tooke's principle, viz.—*that a small excess, or deficiency, in the supply, is calculated to produce a much greater effect upon the price of corn, than other commodities.*

This principle, like most others in political economy that have taken root of late years, is the very reverse of the fact. Not only is corn not liable to be affected by any small deficiency or redundancy in the supply, but it is a striking exception to all other commodities, in the very great extent to which the supply will vary without materially affecting its price; and this we have no doubt we shall be able very clearly to demonstrate.

What the Agricultural distress did not proceed from.—With this view it will be proper, first, to show, that the agricultural distress did not proceed from the superabundance of a good harvest or two, and also what it did proceed from, in order that whatever truth there may be in Mr Tooke's principle, it may be seen

that it derives no authority whatever from the state of things it was adopted to account for.

In the first place then, it did not proceed from the superabundance of a good harvest or two, for this very sufficient reason, viz.: that there was no such superabundance.

There is nothing in general with regard to which more vague and general estimates are formed, than with respect to the productiveness of the crops. Generally speaking, every crop, which is not strikingly deficient, is thought by the mass of the public to be abundant, and no farmer can, with any accuracy, say what his crop will yield until he has tried it. The best general account of the result of the crop of each year, published, is to be found in the Farmer's Magazine, published quarterly in Edinburgh. It was commenced in the year 1800. Returns are obtained by it from the most intelligent agriculturists in all parts of the kingdom, and we should imagine, that so far as accuracy is attainable, by the general observation and enquiries of parties most competent to make them, the accounts in the Farmer's Magazine may be depended upon.

The crops which must have produced the agricultural distress, had superabundant seasons been the cause of it, were those of 1818, 1819, and 1820. The fall commenced in 1819, when the crop of 1818 would be in progress of consumption, and the report of the committee was made in June, 1821. The following is the account of these crops, from the abovementioned publication:—

"1818. Wheat: although the stack yards are certainly defective in bulk, the produce in grain will be found fully equal to an average crop."

"1819. Wheat: in shallow hot soils, and in more

" early situations, the grain is in many respects of an
" inferior description. In districts where crops do not
" fully ripen but in very favourable seasons, and on
" deep moist soils, the produce good and abundant.
" In Scotland, the crop fully equal to an average one."

" 1820. Taking all kinds of grain together, there
" can be no doubt that the produce is at least equal
" in quantity to that of seasons of medium fertility.
" Wheat especially, is represented as an abundant
" crop, though it has suffered in some situations from
" mildew, and from being laid by heavy rains in the
" early part of the autumn; but in point of quality it
" is perhaps rather inferior to the produce of the for-
" mer years, even where no reason is assigned. The
" want of heat during the ripening is perhaps sufficient
" to account for this."

From these accounts we may conclude that in 1818, wheat was about an average crop; in 1819, something less than an average; and that in 1820 only, was it a particularly abundant crop. Let us next compare this statement with the following account of the fall. The crop of one year, it being remembered, chiefly comes into consumption and affects the prices in the year following.

1818, average price 83s.
1819, average price 72s. fall 11s.
1820, average price 65s. fall 7s.
1821, average price 54s. fall 11s.

In this statement of the fall we see nothing corresponding with the state of the crops. Had the prices of each year been affected by the supply alone, they ought to have remained stationary after the crop of 1818; ought to have risen after that of 1819, and ought to have fallen again after that of 1820; but

on the whole there ought to have been no material fall whatever.

All general estimates, however, of the state of the crop from a cursory view of it, must be more or less imperfect. The only way to know the state of it with accuracy is by some plan of gauging it. This the eminent house of Messrs Cropper, Benson, and Co. of Liverpool, were convinced of, and have adopted a plan for that purpose. They send out persons every year throughout all the best corn districts in the kingdom, and obtain samples, upon particular principles, of the whole crop. These they dry, measure, and weigh, and thus obtain a knowledge of the state of the crop with a precision never before equalled. It is very much to be regretted that our government do not adopt some such plan. There is no better mode of putting down false theories than by true facts. The following result of these surveys for six years from 1815, their partner, Mr Hodgson, furnished to the Committee of 1821, but the importance of the evidence was overlooked at the time. It may perhaps be proper to explain, as it gives additional value to the account, by confirming the probability of its accuracy, that their surveys were commenced five or six years before 1815, but they had not got them settled upon right principles, and would not give the Committee the result of them before 1815, because they were not to be depended on.

1815,—37 Winchester bushels per acre—quality good.
1816,—25 ditto—very bad in quality; nearly rotten.
1817,—33 ditto—quality not very good.
1818,—32 ditto—quality very good.
1819,—27 ditto—quality very good, but not so good as the year before.

1820,—37 Winchester bushels per acre—sound and dry, but not so good as the two preceding years.

These surveys are taken in the best wheat districts. They consider 32 bushels an average crop, from which about one-sixth would have to be deducted to obtain the actual produce.

Comparing the accounts of the crops of 1818, 1819, and 1820, with those from the Farmer's Magazine, they will be found to nearly correspond:—

Mess. Cropper & Co.'s Account.	*Account in Farmer's Magazine.*
1818,—yielded 32 bushels, which is an average crop.	An average crop.
1819,—27 or 5-32 below an average.	An average in Scotland, but not in England.
1820,—37 or 5-32 above an average.	An abundant crop.

The three crops together, by Messrs Cropper and Co.'s account, produced 96 bushels, which were 32 bushels on the average, or three average crops. Hence it must be evident that there was no superabundance in those years,—a fact which the agreement of the two accounts puts beyond the reach of doubt, and totally negatives the supposition that superabundant harvests produced the fall in question.

There is another mode of accounting for the falls and rises in prices which have occurred since the peace, to which it may be proper also to advert, namely, that the high prices attracted capital to land, and produced an over-supply by an excess of cultivation, and that this caused low prices, which, in their turn, checked it, and brought about high prices, by the land being in consequence again thrown out of cultivation. Those who know any thing of farming must know that there

is not the slightest foundation, in fact, for this hypothesis: they must know that land is not taken into and thrown out of cultivation in any such manner; that crops are raised by a course of husbandry that cannot be changed with such facility; and that, in point of fact, there is quite as much land in cultivation now as there was when prices during the war were at the highest level they ever attained.

No doubt, by the aid of skill and capital, land has been reclaimed and made highly productive, which before produced hardly any thing. This, however, was less the consequence of an increased price of corn than of an improved system of agriculture. But the mere fact at any rate, of throwing poor pasturage land into tillage, does not immediately add any great amount of produce to our supply; for if bad land, upon which cattle were before kept, be taken into tillage, good land must be thrown out of tillage, in order to sustain the cattle. The rich will not want their usual supply of beef, because poor land is taken into cultivation, if they pay the more for it. Poor land, in short, is seldom taken into cultivation, except for the purpose of its being laid down in grass again. The crop pays for the clearing of the ground; but generally the improvement of the pasturage is as much the object in view as the crop which may be obtained. Any surplus that may be yielded by it is trifling. The theory, therefore, of the supply being varied by poor lands being taken into and thrown out of cultivation, is a mere closet speculation, which is not true, and could produce no great effect if it were.

We have stated also that the agricultural distress was not produced by the Bank of England returning to cash payments, or by Mr Peel's bill, as it was fa-

miliarly called, inasmuch as the amount of money in circulation was not reduced by the measure. The Bank put more gold into circulation than it took notes out; and in 1822, when wheat averaged only 43s., the circulation in gold and Bank of England notes was two or three millions greater than it was in 1818, when prices averaged 83s. per quarter. Many persons, notwithstanding this, attributed the agricultural distress to Mr Peel's bill, and do to this day.

It would not, however, have produced such effects, even had it diminished the amount of the circulation in the district of the Bank of England. That district is confined to Middlesex and Lancashire—only two counties of the United Kingdom. In the rest, the notes of the Bank of England and gold are hardly ever seen;* but so far as money affects the price of corn, it must be the money received for it. It is out of all reason to suppose that the notes of a bank or money can affect the price of corn, when they are never seen by those who sell it. That description of money must affect its price which the sellers get for it, and not that which they do not get for it.

Middlesex and Lancashire are no doubt the two most populous counties in the kingdom; but assuming their population to be two millions and a half, and that they consume more in proportion to their population by one-third than the inhabitants of other counties, their consumption will amount to about one-sixth of the United Kingdom; and the effect of the circulation of the Bank of England upon the price of corn, must be in that and no greater proportion; while the notes

* Now that the one-pound notes of the country bankers are going out of circulation, sovereigns are obtained to supply their place, and are more common.

of the banks in the different other parts of the kingdom, must regulate the price of corn to the extent of the other five-sixths of the quantity consumed.

It may be said, indeed, that the issues of the Bank of England in gold and paper are as great as that of all the rest of the banks in the kingdom put together; but it must also be taken into account, that London is not only the centre of payment for all sales of property, and higher transactions in commerce, which have no immediate connexion with consumption, but it is the centre of payment for other countries of the world; and what can our prices have to do with money employed in settling an account between a merchant in France and one in America; or between parties, one of whom converts his land into stock, and the other his stock into land?* There must always be a certain sum of money suspended in circulation for such payments, independent of the money employed in promoting consumption; and of this, which may be termed the money in *abstract circulation*, the circulation of the bank chiefly consists; whereas the circulation of the country banks is more employed in promoting consumption, or in *consumptive circulation*, and it is the money so employed that affects prices.

But those who contend for the paramount influence of the Bank of England circulation, say that it governs the circulation of the country banks;—that if the Bank of England increases its issues, the country banks do the same, and *vice versa*. This, however, is not the fact. It was formerly the opinion; but since the accounts have been so kept at the stamp-office as to shew

* A great many of these transactions are settled by cheques upon bankers; but then a great portion of the notes of the Bank of England lies at all times in the bankers' hands, to meet the payment of cheques.

the progress of the country bank circulation, this opinion is proved to have been erroneous.

The following table gives the circulation of the Bank of England on the one hand, and the amount in value of Bank Notes for which Stamps were issued to the Country Bankers on the other, from 1813 to 1822 inclusive.

Stamps issued to Country Banks.		*Circulation of the Bank of England.*
1813—	£12,615,509	£24,023,569
1814—	10,773,375	26,901,422
1815—	7,624,949	26,887,018
1816—	6,423,466	26,574,840
1817—	9,075,958	28,274,901
1818—	12,316,868	27,221,218
1819—	5,640,313	27,000,000
1820—	3,574,894	28,000,000
1821—	3,987,582	29,000,000
1822—	4,217,341	30,000,000

After 1818, the Bank began to pay off its one pound notes, and by the returns, its circulation in notes appeared to be on the decrease; but had its issues in gold been given, the reverse would have appeared to have been the fact; therefore, after that period, I have stated what I have reason to believe would be near the truth.

By this table it will be seen that in 1814, while the demand for country bank notes was reduced two millions, the issues of the Bank of England were increased nearly three millions, and from that time while the country circulation fluctuated between the greatest extremes, that of the Bank of England remained comparatively steady.

Hence it is evident that Mr Peel's bill neither did nor could have produced the agricultural distress:

first, because it did not reduce the circulation in the district of the Bank of England, and next, because it would not have affected prices if it had; for it could only affect them materially by governing the circulation of the country banks, which it appears by the clearest evidence not to do.

Previous to considering what the agricultural distress did proceed from, it will also be proper to mention, that it did not proceed from any failure in the usual sources of demand. There had been no internal changes in the country to diminish the demand, excepting that of which it was itself the cause; and the briskness of our foreign trade was not only proved by our manufacturers, at least in 1821 and 1822, being actively employed for the foreign market, but by the very large quantity of money which was imported into the country in payment for our manufactures exported. Indeed the want of the usual sources of demand was so obviously not the cause of the agricultural distress, that in the various speculations on the subject, I do not recollect seeing it ever suggested as being so.

What the Agricultural Distress did proceed from.—Having thus shown what the agricultural distress did not, we shall next proceed to show what it did, proceed from, which the foregoing observations will have rendered not difficult.

There are only two causes from which it could have proceeded, namely, from a variation in the supply and demand for corn, or from a reduction in the amount of money in circulation; and as it did not proceed from the former it must have proceeded from the latter. Now, the circulation of this country, at that time, consisted of the notes of the Bank of England and gold, which, as we have before stated, circulated in Middle-

sex and Lancashire, and the notes of the country banks which circulated in the rest of the kingdom; and as it neither did nor could have proceeded from the circulation of Middlesex and Lancashire, it must have been produced by a contraction of the issues of the country banks in the other parts of the kingdom; and that it did proceed from that cause is rendered clear to demonstration by the returns from the Stamp Office which we have already given. These, indeed, not only prove the fall in prices from 1818 to 1822, to have proceeded from a contraction of the country bank circulation, but the previous fall of prices from 1813 to 1815, to have proceeded from the same cause. Let us compare that account with the variations in prices of that period.

Annual demand for stamps.		*Price of wheat.*
1813—£12,615,509	... ...	107s. per quarter.
1814—£10,773,375	... ...	74s. ...
1815—£ 7,624,949	... ...	64s. ...
1816—£ 6,423,466	... ...	75s. ...
1817—£ 9,075,958	... ...	94s. ...
1818—£12,316,868	... ...	83s. ...
1819—£ 5,640,313	... ...	72s. ...
1820—£ 3,574,894	... ...	65s. ...
1821—£ 3,987,582	... ...	54s. ...
1822—£ 4,287,341	... ...	43s. ...

From these returns, we do not obtain the actual circulation of the country banks; but they furnish an evidence of its increase and decrease sufficient for our purpose.

In considering the above table, it will be necessary to keep in view that the prices of 1816 and 1817 were influenced by the failing crop of the former year. In January, 1816, the price of wheat averaged 52s.: in December, 103s.; and also that though there was a small increase in the demand for notes in 1821 and

1822, there would be a diminished circulation, as the notes of 1818 and 1819 would in these years be taken out of circulation. This table renders it clear to demonstration, that the agricultural distress was produced by a contraction of the issues of the country banks, while we have shewn by our previous arguments, that there was no other way in which it could have been produced.

These variations in the issues of the country banks, are chiefly caused by variations in the value of money or capital. The Bank of England can keep its circulation steady, because if it cannot obtain commercial bills to discount, it can issue its notes in purchase of exchequer bills. The country banks have not this resource, and being chiefly private banks, they dare not lend money upon any other security than commercial bills, and if they cannot get them, the country is deprived of its circulating medium, and an alteration in prices takes place—so that an alteration in prices is pretty certain to follow an alteration in the value of money. As capital or ready money becomes plentiful, currency becomes scarce, if such a term can be applied to currency, and *vice versa.*

Mr Tooke's Theory examined.—We have thus shewn what the agricultural distress did not, and what it did proceed from, from which it must be evident that Mr Tooke's theory receives no support from the fall in prices it was adopted to account for. It might, however, still be true, notwithstanding. If a person have a hurt like a bruise, but which came by some other means, it does not prove that a bruise would not have been sufficient to have produced a similar hurt. As there was no superabundance, the principle remains in some degree unimpeached, though unsupported by the fall

in question; and we will now proceed to a more particular examination of it. It is in substance as follows:—" People can eat a given quantity of food and no " more. This quantity they obtain in ordinary years, " and consequently any surplus cannot be consumed " by them; for cheapness will not induce a person to " eat more than he wants. When there is a surplus, " therefore, however small, it must be a drug upon " the market; and the surplus of a good harvest or " two, could not fail to produce a ruinous depression " for a length of time."

Of the correctness of this principle there could be no doubt, if it were true that, in ordinary years, the population are adequately fed. But if this were the fact, there would be no truth in the principle universally admitted, that population is only kept down by want, to a level with the means of subsistence, nor yet would there be any need of poor laws. The fact, however, is, that the population is not only not adequately fed in ordinary years, but is, on the contrary, very inadequately fed, of which some proof is afforded in the annual payment of six or seven millions in poor rates. Instead, therefore, of the population not being able to consume more than the produce of an average crop, it would be more near the truth to assert, that it could consume two average crops instead of one. No principle could be founded on a fact less true and more easily refuted, than that, in ordinary years, the population is adequately fed.

But, notwithstanding, if the harvest was sufficiently productive, it might exceed the amount to which consumption could go. In that case, however, it should be at least a double crop; whereas it is probable that a superabundant crop never does exceed an average one

above 20 per cent.; so that there can be very little doubt that the most abundant crop can always be consumed with the greatest ease.

But without going the whole length of Mr Tooke's hypothesis, if we assume that the whole of a good crop could easily be consumed, yet if the means of purchasing it were to remain the same, a considerable fall might still be the consequence in an abundant year. Suppose that, in ordinary years, the price was £3 per quarter, and the produce 12,000,000 quarters, thirty-six millions would be the fund appropriated to the purchase of corn. It must be kept in view that those who can afford it, always consume as much corn as they require, whether it be dear or cheap, and their consumption would not be increased in cheap years, nor diminished in dear ones. We shall suppose one-third of the population to be in this situation; that is to say, they will consume 4,000,000 quarters, whatever be the state of the crops. Whatever increase, or diminution, takes place in consumption must, therefore, be with the other two-thirds, or the labouring class. Let us then estimate that an abundant crop will produce 14,400,000 quarters, which is one-fifth more than an average crop; this would leave 10,400,000 for the labouring class. But as this part of the population would be scantily fed in average years, the whole of the funds they could spare for that purpose would have been laid out in provisions, which funds, as we have before supposed, would amount to £24,000,000. Now should this class have no more money in plentiful years than in average ones, they could not give any additional money for the additional supply, though they might be able to consume it. The farmers, therefore, would only get £24,000,000 for 10,400,000 quarters, or about

46s. per quarter; and as this part of the crop, or the price paid by the working class, would determine the price paid by the rich for the 4,000,000 quarters they consumed, the crop would yield as follows:—

10,400,000 quarters would sell for - - - -	£24,000,000
4,000,000, at the same rate, would produce in round numbers, say - - - -	£9,500,000
14,400,000 quarters would produce - - - -	£33,500,000

An average crop we have assumed would produce £36,000,000; and by this calculation it will be evident, that the monied demand for corn remaining the same in a bountiful year as in an average one, the farmers on the aggregate would lose £2,500,000 by having a crop one-fifth greater than usual. By the same rule, if the crop was one-fifth below the average, they would be into pocket by it. In that case, there would only be 5,600,000 quarters left for the labouring part of the population. One-fifth off 12,000,000 quarters would leave 9,600,000, and 4,000,000 consumed by the rich would leave 5,600,000 for the poor. For this they would give all the £24,000,000, and more if they had it, in their competition to obtain as great a share as possible of the diminished supply. The crop would consequently yield the farmers as follows;—

5,600,000 quarters would leave - - - - -	£24,000,000
4,000,000, in the same proportion, would leave, say - - - - - - - - - -	£17,000,000
9,600,000 quarters would produce - - - -	£43,000,000

Thus the farmers would gain seven millions by the crop being one-fifth below an average.

However contrary this may be to experience, it is clear to demonstration, that if the monied demand for corn by the working class be the same in one year as another, the farmers must make more by a bad crop than a good one, and the economists assuming the demand not to vary, have thus reasoned.

But the fact we know to be that the farmers invariably make by good crops and lose by bad ones. Now, this could not happen without there was a greater monied demand for corn in seasons which were productive than in those which were not.

It is quite clear that if this were not the case the farmers must be under a mistake, and Mr Ricardo and the economists would be right in assuming that a good crop, whatever it may be to the community, is a curse to the farmer.

"No one has said," observes Mr Ricardo, "that "abundance is injurious to a country, but that it fre-"quently is so to the producers of the abundant com-"modity. If what they raised was all destined for "their own consumption, abundance could never be "hurtful to them; but if in consequence of the plenty "of corn, the quantity with which they go to market "to furnish themselves with other things, is very much "reduced in value, they are deprived of the means of "obtaining their usual enjoyments; they have in fact "an abundance of a commodity of little exchangeable "value." *On Protection to Agriculture, p.* 21.

That is to say, in plain terms, they will get much less money for an abundant crop than for an average one.

The reverse of Mr Tooke's Theory proved to be the Fact.—But this is not the fact. All farmers rejoice in a good season, though it may extend over the whole world, and lament a bad one. They say let us only

have a plentiful crop: for if we get less for it per quarter we shall get more for it on the whole. But this, as we have said, could not be, unless the means of purchasing by the labouring part of the population was increased. If the farmers on the average get six millions more for a good crop, the labouring part of the population must at least have six millions more to give for it; or if on the other hand they obtain six millions less for a bad crop, the means of the labouring class must still more obviously be diminished to that extent: for there is no doubt than when the supply is more deficient than usual, they would be disposed to lay out a greater rather than a less proportion of their wages in the purchase of food. The high price and deficient supply would only induce them to pinch themselves in other things in order to obtain provisions. It would not induce them to apply a shilling less of the funds at their command for that purpose. If, therefore, the farmers got six millions less for their corn in a deficient crop, than in an average one, it could only arise from the power of purchasing by the labouring class being diminished in that or perhaps in a greater proportion. It is evident, therefore, that the labouring class must have more money in plentiful years, or the farmers could not obtain more money for their crops; and less money in bad years, or the farmers would gain by them.

Now the demand for corn depends of course upon the demand for labour, the source from whence the income and means of the labourer are derived; and our next point is to ascertain whether the demand for labour rises and falls with the variations in the crops. Dr. Adam Smith says it does; and he is great authority in matters of fact. He was besides, twenty years in writing his Wealth of Nations, and had ample opportunity,

after his attention was directed to the subject, of observing the effects of the state of the crops on the demand for labour.

" A French author," he observes, "of great knowledge and ingenuity, Mr Messance, receiver of the tallies in the election of St. Etienne, endeavours to shew that the poor do more work in cheap, than in dear years, by comparing the quantity and value of the goods made upon those different occasions, in three different manufactories—one of coarse woollens, carried on at Elbeuf; one of linen, and another of silk, both of which extend through the whole generality of Rouen. It appears from his account, which is copied from the Registers of the Public Offices, that the quantity and value of the goods made in those three manufactories, have generally been greater in cheap than in dear years, and they have always been the greatest in the cheap years. All the three seem to be stationary manufactures; or which, though their produce may vary somewhat from year to year, are upon the whole neither going backwards nor forwards."

" It is," he further observes, "because the demand for labour increases in years of sudden and extraordinary plenty; and diminishes in those of sudden and extraordinary scarcity, that the money price of labour rises in the one, and sinks in the other."

" In a year of sudden and extraordinary plenty, there are funds in the hands of many of the employers of industry, sufficient to employ and maintain a greater number of industrious people than had been employed the year before; and this extraordinary number cannot always be had. Those masters, therefore, who want more workmen, bid against one

" another in order to get them, which sometimes raises " both the real and the money price of labour."

" The contrary of this happens in a sudden and ex- " traordinary scarcity. The funds destined for em- " ploying industry are less than they had been the " year before. A considerable number of people are " thrown out of employment, who bid one against ano- " ther in order to get it, which sometimes lowers both " the real, and money prices, of labour. In 1740, a " year of extraordinary scarcity, many people were " willing to work for bare subsistence. In the suc- " ceeding years of plenty, it was more difficult to get " labourers and servants." *Wealth of Nations.*

If we refer back to 1817, it is also within our own recollection, that the scarcity of that year, was more particularly felt by the poor in the want of demand for labour. The funds which were raised for the relief of the poor in that year, were almost universally distributed by giving employment to it, in improving roads, or some other work of public utility; and the want of employment ceased altogether in the year following, after the scarcity was over.

From this it will be evident that the demand for labour does increase and decrease with the productiveness or unproductiveness of the seasons.

This is a wise provision of nature: for if men have not food, it is better that they should not have work. A person without labour can exist upon much less food than with it. Neither is the idleness resulting from want of labour, accompanied by want of food, at all likely to conduce to idle habits; and the propriety of appropriating the funds raised for the relief of the poor, at such periods, in giving employment to able bodied men, may be questioned. It is opposed to the wisdom

of Providence. Such funds should rather be appropriated to the aid of the weak and sickly, who not being able to find employment, are unable to support the privations of the season, and become unable to work. These should be sought out, and administered to, in proportion to their wants. In expending the funds in employing those who can work, you assist those who can best assist themselves. In a season of endurance, those should be assisted whose strength fails them—not those who can do something for themselves, and might perchance find employment elsewhere.

Hence it is clear, both from reason and experience, that the demand for labour does vary with the seasons. Our reason tells us so, because if such were not the case, the farmers could not make by a good crop, and lose by a bad one; and this is confirmed by the facts pointed out by Dr. Smith, as well as by what occurred in our own recollection in 1817, which is sufficiently notorious.

Having thus established that the demand for labour does increase and decrease in good and bad seasons, we shall next endeavour to ascertain the degree of effect that this has upon the price. Should the harvest exceed an average one, by two millions of quarters, but at the same time should the demand for labour be so much increased as to place six millions of additional funds in the hands of the labouring class, applicable to the purchase of food, there would be no fall of price. It would remain at £3 per quarter as before. The extra 2,000,000 quarters would be met by a corresponding demand for it. The benefit of the additional supply would be felt, not in a reduction of price, but in an increased demand for labour. On the other hand,

should the crop be 2,000,000 quarters beneath an average, and the funds of the labouring class applicable to the purchase of food, be reduced six millions, neither would the price rise: labour to that extent would be thrown out of employment. Hence it is obvious, that prices must be prevented from falling, or rising, in proportion as the additional or diminished demand for labour shall correspond with the increased or reduced supply of corn. In a famine, when people will part with every thing they have for food, we can easily conceive that a falling off in the demand for labour will not prevent corn rising in the same degree as when the diminished supply is not so great as to call for such sacrifices.

The effect which the accompanying fluctuations in the demand for labour has in neutralizing the effect on prices, by variations in the crops, can only of course be ascertained by reference to experience; and for this purpose, we will turn to the crops of which Messrs Cropper, Benson, and Co. have furnished so accurate an account.

By their account, it appears that the crop of 1819 was 5-32nds below an average, and that the crop of 1820 was 5-32nds above an average one. This computing the average produce to be 12,000,000 quarters, would make

The deficiency of 1819,	-	1,750,000 quarters.
The excess of 1820,	- -	1,750,000 quarters.
Total difference between them,		3,500,000 quarters.

When it is considered that the importations of 1818, which were the greatest we ever had, did not amount to more than 1,586,030 quarters, we shall have some

idea of the immense difference between these two crops; and we might naturally expect, if there was the shadow of ground for Mr Tooke's theory, of the great effect produced upon price by the variation in the supply, that a very striking difference would have been observable in the prices of those two years.

But how was the fact? From 1818 to 1822 was a period, as we have shown, of declining prices, from a contraction in the circulation of the country banks, and these two harvests occurred in the midst of that fall. Let us therefore examine the state of all the crops and prices of that period. We must always keep in mind that the crop of each year is chiefly consumed in, and affects the prices of the year following.

1818.—83s...The crop of 1817 with the importation of 1818, amounted to an average one.

1819.—72s....The crop of 1818 an average one.

1820.—65s....The crop of 1819, 1,750,000 quarters deficient.

1821.—54s....The crop of 1820, 1,750,000 quarters redundant.

1822.—43s....The crop of 1821 an average crop.

The fall in each year appears to have been as follows:—

1819.—11s....After the average crop of 1818.
1820.— 7s....After the deficient crop of 1819.
1821.—11s....After the abundant crop of 1820.
1822.—11s....After the average crop of 1821.

By this it appears that the deficiency of 1819, which in amount was much greater than the largest importations we ever received in one year, did not check the fall more than 4s. per quarter, and that the abundance of 1820, which was equally great, did not enhance it in the least. The fall after the average crops of 1818

and 1821, being precisely the same as after that of 1820, namely 11s. in each year; so that, in point of fact, there is not an observable difference, arising from the state of the supply, of more than 4s. per quarter between the years 1820 and 1821, although the difference in the supply was 3,500,000 quarters.

Let us take another instance. It is well known that in 1823 prices took a start. A demand for capital began to be experienced, and the country banks to increase their issues, and a rise in prices followed, which went on as the country bank circulation extended, until both were checked by the panic of December, 1825. Every one attributed this rise to the increased circulation of the country banks; even Mr Tooke partly did so.

In	1822,	the demand	for stamps	was	£4,217,341.
	1823,	ditto	ditto	ditto	4,657,589.
	1824,	ditto	ditto	ditto	6,093,367.
	1825,	ditto	ditto	ditto	8,532,438.

Now, by Messrs Cropper, Benson, and Co.'s surveys, 1822 was an average crop,
1823 1-6th below an average,*
while the average prices in those years were as follows:

1822—43s. 3d.
1823—51s 9d. being a rise of 8s. 6d.
1824—62s being a rise of 11s. 9d.

The deficiency in 1823 would be equal to 2,000,000 quarters, by which it will be seen, that the rise in 1824 was enhanced 3s. 3d. The rise being 8s. 6d. after the average crop of 1822, and only 11s. 9d. after the crop of 1823, which, it appears, was two millions of

* Their account given to the Committee of 1821, does not go further, of course, than 1820; but the author was favoured by Mr Cropper with these particulars since then.

quarters deficient. From these facts we may form some idea to how great an extent the demand for corn accommodates itself to the supply, and how very erroneous the principle is, that a small excess or deficiency in the supply will produce a much greater effect upon price than an equal excess or deficiency in the supply of any other commodity.

The difference between corn and other commodities consists in this, that with corn the monied demand increases and decreases with the supply,—a thing which was not at all taken into account by Mr Tooke, Mr Ricardo, and others; whereas with other commodities, though cheapness may give rise to additional consumption, it does not increase the income and means of the purchaser.

SECTION III.

On the Principle that Corn creates its own Demand.

In the last Section we have shown, that there is no truth whatever in Mr Tooke's principle, that a small excess or deficiency in the supply of corn, has an effect upon the price of it far beyond the ratio of such excess or deficiency; but on the contrary, that the demand accommodates itself to the supply, and that a very great increase or falling off may take place in the supply without any material effect upon price.

This affords an additional proof, not only that the agricultural distress was not produced by an excess of supply, but that none of the great fluctuations we have experienced in the last thirty years were caused by the state of the supply, as Mr Tooke and others have endeavoured to establish.

In accounting for the fluctuations we have experienced by the state of the supply, it has always been assumed, that the demand was stationary or perhaps increasing, while the supply fluctuated; whereas it is evident that the demand follows the supply. The supply comes first, and the demand after—the supply causes the demand; which renders corn in that respect an exception to all other commodities. And as all legislation on the subject of corn, has hitherto been framed with reference to the principle, that the demand preceded the supply—that the demand was the cause and the supply the effect, it is not a matter of surprise that we should not yet have settled our corn laws upon right principles: for there cannot be a greater error

than mistaking the cause for the effect, or one more likely to produce a confusion of ideas on any subject.

It is generally said, that as capital, manufactures, commerce, and population increase, the demand for corn increases—that manufactures and commerce give rise to population, and population to the consumption of, and a demand for corn. And it is no doubt true that until manufactures and commerce are established, corn is seldom extensively cultivated; but it does not follow as a necessary consequence that manufactures are the cause, and the production of corn the effect, more than that the priming or water put into a pump to make it work, is the real cause of the supply of water which is obtained from it.

In order to ascertain whether commerce, manufactures, and population are the cause of the demand for corn, or the effect of the supply, it will be proper to divide the population of the country into three classes:—The agricultural class, including all those who derive their income and means of subsistence from the soil; the capitalists, whose incomes are derived from capital employed in trade and commerce, or generally in contributing to the supply of our wants and enjoyments; and the class of labouring manufacturers and others, who are thus employed.

The Agriculturists derive their power of consuming Corn from the Supply.—Now the first of these derive their income from the soil at once, with them, including both land-owner, farmer, and labourer, the supply of corn clearly furnishes the means of their purchasing it. We therefore pass on to the other two classes, with whom the demand for corn must originate, if it be the demand which causes the supply; and we shall begin with the working class.

The demand for Corn cannot proceed from an increase of manufacturing Population.—The labourer, whatever his wants may be, cannot purchase corn without money, and he can obtain money only by means of a demand for his labour. The amount of corn this class can purchase, therefore, depends upon the amount of demand for their labour. The question consequently is, can this class of themselves in any way increase that demand? The manner in which this is generally supposed to be done, or at least the way in which the increased demand for corn is supposed to arise, is by an increase of population. But how is an increase in the supply of labour, to increase the demand for it? If I have the power of employing ten men, I do not see how that power is to be increased by my having the offer of twenty; unless, indeed, I could thereby get more work done for the same money. But in that case no increased demand for corn would be the consequence; the same sum or power of purchasing corn, would merely be divided amongst a larger number of persons.

It is erroneous to suppose, that merely an increase of population can increase the demand for corn without an increased demand for labour. Any increase in population must be preceded by an increased demand for labour, if it give rise to an increased demand for corn. When the population increases without an increase in the demand for labour, misery and starvation are the consequence, as Ireland at this moment sufficiently proves. If we, therefore, wish to ascertain what it is that gives rise to an increased demand for corn, we must inquire into the cause which gives rise to an increased demand for labour.

Before a country is fully peopled, an increase in population has no doubt the effect of increasing the de-

mand for corn. But even in that case, the supply may be said to exist before the demand, in as much as it is in the earth, and any one who tills may obtain it; which is not the case after a country is fully peopled, and the earth is made to yield the utmost it is in the power of those who cultivate it, to make it yield. The earth may therefore be said, before a country is fully peopled, to have a demand for labour which is not fully supplied. Hence the demand for labour in strictness of principle, may, in such case, be considered to precede the increase of population and demand for corn. But in this state of society, all, or nearly all, are agriculturists. They belong to that class, who, at least, in a more advanced state of civilization, very obviously derive their power of consuming corn from the supply, and consequently are not the class we have been speaking of. The class we have been considering, is the class of artisans, &c. who are fed upon the surplus produce of the soil, after it comes to yield a surplus; and an increase in their numbers, without an increased demand for labour, paid for in money, will not, it is evident, produce any increase in the demand for corn.

A Demand for Corn cannot proceed from an Increase in manufacturing Skill and Capital.—If an increase in the number of labourers will not increase the demand for corn, still less can that demand be increased by the employment of capital in trade and manufactures. The immediate effect of all improvements in machinery, is to throw labour out of employment; whereas an increased demand for corn must be accompanied by an increased demand for labour.

Neither does an accumulation of capital increase the demand for corn. The effect of an accumulation of capital in trade, is to diminish the profits of trade, and the incomes of those who live by its profits; and it is

not possible that the consumption of corn can be increased by reducing the incomes of those who consume it.

It is said, indeed, by the economists, that as capital is saved, additional labourers are employed :—men extend their manufacturing concerns, and embark in new undertakings, by which a new demand for corn is created. The simple answer to this however is, that it is not true.

In all trades at this moment, there is more capital than is wanted, and more would be employed were it possible to employ it with advantage. The employment of capital, in trade, is restrained to the amount sufficient to supply the demand for the commodities which it is the object of trade and manufactures to produce, and the demand for these cannot be increased by merely increasing the supply.

Hence, upon the slightest consideration, it must be obvious, that an increased demand for corn cannot be produced either by an increase in manufacturing population, manufacturing capital, or manufacturing skill. The latter, indeed, must obviously have the effect, so far as it goes, to diminish the demand for corn in the employments in which the improvements in skill and machinery occur ; and with regard to the two former, it is evident, that they cannot increase the demand for corn unless an increase in the demand for labour and commodities previously occurs.

A Demand for Corn not caused by Foreign Trade.— As it thus appears, that the demand for corn depends upon the demand for labour and commodities, we have next to enquire what it is that generates this demand ; and we are naturally led to examine whether it may not be produced by foreign trade.

At the same time, however, it must be observed, that let the demand for commodities come from where it may, it must be a demand by those who have the power of purchasing and consuming them; and this power must be derived from income, in whatever way the income may be obtained by the parties who possess it. Whether the demand be a home demand or a foreign demand, it must proceed from those who enjoy the means in the country in which they reside, of purchasing the necessaries and luxuries, foreign or domestic, which they may consume.

In considering our trade with foreign nations, it must also be remembered that we purchase and consume their commodities as well as they ours. It must likewise be previously explained, that if we did not purchase and consume foreign commodities, the same amount of money must be spent at home: for income must be spent either in one way or another.

A man must do one of three things with his income—he must spend it, or lend it, or hoard it. If he spend it, he must do so in a demand for home labour and produce, should he not purchase foreign commodities; if he lend it, it must be to those who mean to use it, and who must spend it in a demand for home produce and labour, if they do not consume foreign commodities; and if he hoard it, he takes the money out of circulation, contracts the currency, reduces the price of commodities generally, and increases the power of consumption by those who possess the money left in circulation. Hoarding may alter the value of money and scale of prices, but it does not prevent consumption. At the same time, it is so little practised, that it is not worth consideration as a general principle; and where it is practised, people do not hoard for ever; so that while

some are hoarding, others are bringing their hoards into circulation. We may therefore leave hoarding out of view, and say that income must be spent; because people must either spend it themselves or lend it to others, who will do so. It will, however, be proper to explain, that it is not meant to be said that a person cannot save his income; but that he must do so by spending it or lending it. If he neither hoard it nor lend it, and yet save it, he must convert it into capital by building houses, buying goods, or spending it in some way in which consumption and production will be promoted. Income or ready money cannot be saved, though capital can; and it is important to keep this in view.

As it thus appears, that if we do not spend our income in consuming foreign commodities, we must do so in consuming our own, it will be evident that if foreigners do not purchase a greater amount of our commodities than we do of theirs, they do not increase the consumption of our produce more than if we had no foreign trade at all. More of our labour and produce is not consumed than would be by the expenditure of our own income at home. Thus, if we import and consume thirty millions of foreign commodities, while foreigners, in return, purchase and consume thirty millions of our manufactures, they appropriate thirty millions of their income in a demand for our labour and produce, while we appropriate thirty millions of our income in a demand for their labour and produce. An exchange, but not an increase of consumption takes place. Without meaning to deny that such exchange is highly beneficial, and calculated to increase the income and consumption of both; yet in such a state of the trade, it is obvious that the foreign demand for commodities, and

by consequence for corn, does not exceed the amount of what would be generated by the expenditure of our own income, on the supposition that we had no trade with the rest of the world, and spent our income entirely in consuming our own produce. We can obtain, therefore, no increased demand for our manufactures and increased consumption of corn by foreign trade, so long as the demand of foreign nations for our commodities does not exceed our demand for theirs.

This will be evident for another reason. In this state of the trade, our exports would exactly pay for our imports—our payments would balance—we should not receive any money; and if the amount of corn and other commodities in the country were not reduced, the price of them, without additional money in circulation, could not rise; and it is a rise in price which is always considered to indicate an increase of demand. For example, let us put an extreme case, and enquire for a moment whether it would be possible without any deficiency whatever in the supply of corn, for the price of it to be doubled without any increased demand for it in money. Would it be possible for the farmer to sell his produce at double prices, and yet obtain no more money for it than before? There is no magic in these matters, and it is certain if he got no more money he would get no more price; and it is equally certain that he could not get more money without there was more money in the country for him to get. The price of corn and other commodities may be increased by the quantity of them being diminished, the amount of money in circulation remaining the same; but prices cannot be increased if there be no diminution in the supply, without some have more money to give for them; and this could not be the case if the balance of

payments were not in our favour, and no additional supply of money came into the country. Hence, also, when our foreign trade balances in commodities—when our imports are equal to our exports, no increased demand for corn and rise in prices can be experienced by a foreign demand for our manufactures for want of an additional supply of money.

But we must here be understood to refer to the operations of a metallic currency. With a metallic currency no addition could be made to the amount of money in circulation, except by means of a balance of payments in our favour. Our paper currency, however, though it represents a metallic currency, is not always governed by the principles which regulate the currency it represents. But in our present reasoning, as it is not our immediate object to speak of its defects, we shall assume that it has none—that it increases in amount as gold comes into the country, and decreases in amount as gold goes out; and that the amount of paper is at all times precisely equal to the amount of gold there would be in circulation, were there no paper.

Having seen that with the balance of trade equal, there can be no increased demand for corn from our foreign trade, let us next suppose that foreigners have a greater demand for our commodities than we have for theirs, and that the balance of payments is in our favour, and see how far this will give rise to an increased demand for corn. For example, suppose their demand for our commodities to be forty millions, while our demand for theirs did not exceed thirty, so that the balance in our favour to be paid in money amounted to ten millions. It must, as we are speaking of the foreign demand for corn, through the medium of a demand for our manufactures, and not of the foreign

supply, which we shall speak of hereafter, be also understood that either by prohibitory laws, or natural causes, which would render an importation of corn impossible, we can obtain no foreign supply, and must altogether depend upon ourselves. Let us then suppose that the whole of this ten millions, through the demand for manufactures, was in the course of a year spent in agricultural produce—in hay and corn for horses, and meat and corn for men: for the keep of horses as well as men, forms a part of the cost of our manufactures. Then let us compare this additional demand with the supply. Colquhoun, estimating the average prices to correspond with 70s. 6d. per quarter, makes agriculture, in all its branches, yield in the year 1812, £216,817,624. Agriculture has since been much extended, but prices have fallen, and to be on the safe side, we will strike off one third, and estimate that the value of produce which would be affected by this demand, would amount to £144,545,083, or for the sake of round numbers, to £150,000,000. For this amount of produce, there would be a demand were the balance of payments not in our favour, and the ten millions would form an additional demand. Now, what would be the effect on prices by an additional demand of ten millions for one hundred and fifty millions of produce? If it were a simple increase of demand, and the same effects were produced which we observe to take place on any increase of demand for other commodities, it is evident, that one hundred and sixty millions would be given for that which before had sold for one hundred and fifty millions. The demand would have increased ten millions, and prices exactly in that proportion. Estimating the rise in shillings per quarter, it would amount to 4s. upon 60s., and no greater

rise could take place. But our experience tells us that if we suddenly bring ten millions of money into consumptive circulation, the rise is more likely to be 30 or 40s. per quarter. Money, which is received in a demand for our manufactures, did it meet no obstruction, would circulate throughout the country; and we have seen the very great effect upon prices, which the contraction and expansion of our country bank circulation produces. The contraction did not probably exceed ten millions, which reduced prices from 83s. in 1818, to 43s. in 1822, nor the expansion exceed six millions, which raised them again to 66s. in 1825. But of this, at all events, we are certain, that, estimating the circulation at fifty millions, an addition of ten millions to it, could not fail to raise the price of corn one fifth, instead of one fifteenth, and not only the price of corn but of every thing. The rise therefore on 60s. would at least be 12s. instead of four, and what is not the case with an ordinary demand, the price would continue steady, though the foreign demand for our manufactures the next year should fall off, and be reduced to an equality with our demand for foreign commodities.

Now, if this be not an ordinary demand, it must be an alteration in the value of money; and it has always been admitted that an alteration in the value of money can produce no increase of demand whatever. "It "was a shrewd observation," observes Hume, in his Essay on Money, "of Anacharsis the Scythian, who had "never seen money in his own country, that gold and "silver seemed to him of no use to the Greeks, but to "assist them in enumeration and arithmetic. It is "indeed evident that money is nothing but the repre-"sentative of labour and commodities, and serves only

" as a method of rating or estimating them. Where
" coin is in greaty plenty, as a greater quantity of it
" is required to represent the same quantity of goods,
" it can have no effect, either good or bad, taking a
" nation within itself, any more than it would make an
" alteration in a merchant's books, if, instead of the
" Arabian method of notation, which requires few cha-
" racters, he should make use of the Roman, which
" requires a great many."

Hence an addition of ten millions to the circulation, would not increase the demand for commodities; it would merely alter the scale or rate by which they were estimated. At the same time it may be enquired, if the ten millions be spent in the purchasing corn, how could there be no increase of demand for it?

The answer, however, is obvious: while the power of purchasing corn by those who received the ten millions was increased, the power of purchasing it in a corresponding degree by those who had the money in previous circulation, would be diminished; and, upon the aggregate, no more corn would be purchased than before. It is apparent that the increased quantity of money would not increase the quantity of corn, neither would it make it scarcer. There would be as much corn as ever, and not more people to eat it; and if not one grain more of corn was grown in consequence of the rise in price, the nation, notwithstanding the rise, which is always assumed, though erroneously, to indicate scarcity, would not be worse off than before. If the rich did not eat less, they would not eat more corn for the rise in its price, and the remainder must always be consumed by the working classes, at whatever their wages enable them to give for it; so that if the supply be the same, neither a rise nor a fall in price ought,

generally speaking, to be of any consequence to them. Such rise or fall must be determined by the quantity of money they have to give for it. If that quantity be large, the price is high; if it be small, the price is low. Corn is a perishable commodity, and must be brought to market, and sold at whatever price can be obtained for it, and the labouring classes must get the whole, after the rich are supplied; more they cannot get, whether the price be high or low.

After the money had been introduced into circulation, it would increase the monied income upon which the demand for labour previously depended, not merely to the extent of ten millions, but to the extent of one-fifth of the whole income of society; so that if the demand was increased at all, it would not be increased ten, it would be increased perhaps fifty millions. But as the price of all things would be increased in a corresponding degree, this would not give the possessors of the income of the country the power of purchasing more of labour and home produce than before.

Persons who have thought in the least degree on the subject of currency, will readily admit that paper money may be depreciated in value, without making any real difference in the condition of the country, or without affecting the relative state of supply and demand in the least. If paper money were issued to such excess, as to reduce the value of a pound note to a shilling, the demand for corn would not be increased by such excess. The price of corn and all things, in paper money, would merely rise to twenty times their present level. A depreciation, indeed, similar to this, occurred in the paper money of France during the revolution; as well as, though not to so

great an extent, in the paper money of other continental states, without of course affecting the real condition of the country, with reference to the state of demand and supply of any thing produced in it. Now paper money is introduced into circulation in the same manner as metallic money, namely, in a demand for commodities. It is issued by government, in payment of its troops, or its debts, or in some way in which a consumptive demand is promoted; and if such demand merely produces an alteration in the value of money, the same must be the effect of metallic money coming into a country, though it be obtained by the more legitimate channel of foreign trade. Hence it is evident that an excessive foreign demand for our manufactures, when paid for in money, does not increase the real demand for corn. It only raises the price of it, by depreciating the value of the gold currency, and the paper money, of course, which represents it.

Although a depreciation in the value of money be the only effect of an increased foreign demand for our manufactures, and balance of payments in our favour, as regards the demand for corn, it has other important effects upon national wealth, which have not hitherto been understood, but which it will be proper to explain.

The Manner in which Foreign Trade increases National Wealth.—All trade, both domestic and foreign, consists in an exchange of commodities, and money is only the instrument by which they are valued, and the barter conducted. Trade, for example, could not be carried on by any nation long, that would sell its goods for money alone, even if other nations were willing to trade with it on these terms. Suppose we were to pass a law, that no one should import foreign commodities,

though they might export whatever they thought proper, and foreign nations continued to trade with us under these circumstances, and of course to pay us with money, for whatever they purchased from us, the effect would be, that our prices would rise, and theirs would fall; the monied income of their consumers would be diminished, while the prices of our commodities would be increased, until, in time, the trade would be put an end to, by the high price of our goods, and the impossibility of their purchasing them for want of money. This would be the inevitable result. No other trade can be carried on for a continuance, but that which consists in an exchange of commodities. By such an influx of money, we should gain nothing, nor would the nations we treated with, lose any thing. The only difference would be, that, in the notation of payments, gold with us would perhaps come to express the value that silver had done before, and silver with them to express the value that gold had done before. Nature, by the respective alterations in the value of money, would have merely terminated a trade which consisted in giving something for nothing: for such money would be, under these circumstances. It would not be worth having.

Thus, trade must consist in an exchange of commodities. But then, how are the values of the respective commodities of each country to be determined? An acre of produce with us is worth more, probably, than an acre of produce in Russia; and the labour of the artisans of England is of more value than the same amount of labour in almost any country we deal with. It is not, however, by the quantity of labour in a commodity, so much as by the demand for it, that its value in the exchange is estimated; and the process of the

valuation is remarkably simple. In consequence of the skill of our workmen, and the perfection of our machinery, our commodities are in great request amongst the nations we deal with, and they in return have articles, particularly of raw produce, which we are desirous to obtain. But this kingdom possesses only about 20 millions of people, and our demands for the produce of other nations must be confined to the consumption of the twenty millions. Whereas our articles are light and portable, can easily be transported over the whole world, and are in demand over the whole world. Notwithstanding this, our trade must be confined to an exchange of commodities, and the demand of the whole world for our commodities must be limited to our demand for the commodities of the world. But let us suppose, for example, that at any existing state of prices throughout the world, the demand of the whole world for our manufactures were double our demand for the commodities of the world—that our exports for instance amounted to forty millions, and our imports to only twenty. We should of course receive twenty millions in money; an elevation would consequently take place in the price of our commodities, and a depression in the prices of the commodities of the countries from which the money was received. This would have the effect of diminishing their power of purchasing our commodities, and of increasing our power of purchasing theirs, and the balance of payments would continue in our favour until their demand for our commodities was reduced to a level with our demand for theirs. It is upon this principle that our prices are higher than the rest of the world, and the effect is to make all foreign commodities relatively cheap with us. Thus, though a balance of payments in our favor, and a rise in prices

is of no importance as regards the supply and demand for corn, and every article of home produce, yet, in our dealings with foreigners, it enables us to sell dearer and buy cheaper; and, of course, the higher our prices the better for this country: the richer we become in the power of consuming foreign commodities, of which a great portion of the luxuries of life consist, without our power of consuming corn and other home produce being in the least diminished. Contrast, for instance, the situation of a labourer in England, with corn at 60s. per quarter, and his situation in any other country with it at 20s. per quarter, assuming the amount of population compared with the food produced to be the same. Food for himself and family, is of course the first object of the labourer's solicitude, and to which in every country the greatest portion of his wages must be applied. If we take this upon the average at two-thirds, and suppose that the other third is appropriated to the purchase of those luxuries and comforts which habit has rendered necessary, the amount of the comforts enjoyed by the labouring poor in the two countries may be thus compared:—For every guinea received by the labourer in England, seven shillings would be received by the labourer where corn was 20s. per quarter. In England, consequently, 14s. would be applied to the purchase of food, and 7s. to luxuries; and where corn was 20s., 4s. 8d. would be applied to the purchase of food, and 2s. 4d. to the purchase of luxuries. Now, 14s. would not purchase more food with corn at 60s. than 4s. 8d. would with corn at 20s.; but the 7s. would purchase three times as many luxuries as the 2s. 4d. Colonial produce is as dear in other parts of Europe as in England, keeping out of view the duties to which each state may respectively

subject it; and manufactured commodities, from the lightness of carriage, are sold almost equally cheap in other countries as in our own. Thus, the luxuries enjoyed by the labourer in England will be three times as great as where corn is one-third the price: and it is consistent with experience that in all manufacturing states where high prices have existed, the labouring poor have uniformly enjoyed the greatest portion of the comforts of life.

The same also with the proprietors of the soil: they obtain (speaking of the principle in question, without reference to the advantage they might gain by a depreciation in the value of money, in the payment of taxes, &c.) no benefit by a rise in prices, as regards their consumption of British labour and produce; but in the consumption of foreign commodities, they are highly advantaged by it. Properly speaking, our exports consist of corn represented by labour. The produce of the soil may be said to form the basis of all exports. Man is the produce of the soil, and his labour represents its produce. Manufactures, indeed, are as much the produce of the soil, as if the raw material had been put into it, and had sprung up webs of cloth, and knives, and scissors. Now in the shape of manufactures, corn becomes so portable, that a quarter of corn probably may, in some articles, be sent to China for a shilling. Hence, the land-owner sells his corn in China, in exchange for tea, &c. at, perhaps, sixty shillings per quarter, while he may get his tea at the rate of ten shillings, and he deals at corresponding advantage with other parts of the world.

There is, however, another advantage that the land-owner gains by an elevation in the prices of corn, but which is an equal advantage to the rest of the commu-

nity, namely, its tendency to increase the supply without diminishing the price. As the price rises, an extension of tillage frequently takes place, and a greater quantity of both corn and cattle is produced. An extension of tillage, indeed, is of no value if it does not increase the quantity of food obtained generally. Breaking up pasture land for the mere purpose of growing corn, is of no advantage: it merely deranges the proportion which exists between the amount of corn and cattle produced. Cattle will only, in such case, become relatively higher than corn; and others will be induced to lay down a corresponding quantity of land in pasturage again. A rise in price, however, has the effect of increasing production generally.

Not that the farmer, in the long run, can produce food more at one price than another. If he sell his corn at 80s., he must pay in that proportion for his labour and expence of tillage. If he sell his corn at 40s, his expences of tillage will be proportionately low. It will neither take more nor less labour to cultivate the soil, because of the price; and corn that cannot be cultivated at one price, cannot on an average of years be cultivated at another. The expence of tillage is regulated by the price of corn, and must on the average rise and fall with it. In 1815 it was clearly proved before a committee of the House of Commons, that corn could not then be grown under 80s. per quarter; it is now universally admitted that 60s. is a remunerating price; and it could be grown at sixty pence per quarter as well as at either price.

Notwithstanding this, however, a rise in the price of corn has the effect of increasing the supply. Setting aside his rent, which the farmer has generally contracted to pay at the value of money and price of corn before

the rise, the expence of tillage neither rises nor falls so rapidly as the price of corn. In all employments, there are generally more men than can be fully employed; and the first effect of an influx of money into the country, is to increase the demand for labour at the old price; and all hands are immediately engaged. Those who had work before, and only continue to get the old wages, are worse off; but those who could not get employment before, are better off. Employment is more general, and more work is done for the same wages in the necessaries of life. A rise in prices consequently amounts, practically, to a reduction in the price of labour, and an equalization of employment.

The farmer getting a better price for his corn, without any material increase for a time in the cost of tillage, is encouraged by success, enabled by the capital he has raised from the fruits of his success, and induced by the comparative cheapness of tillage, to endeavour to extend and improve his system of cultivation; and as capital judiciously employed on land is often very productive, he frequently makes a permanent increase to its produce. So that a rise in the price of corn is certain to a greater or less extent to increase the quantity produced, by which corn becomes more plentiful, and the labourer gets more of it, through the medium, no doubt, of an increased demand for his labour.

Seeing that the rise in the price of agricultural produce gave the first impulse to those improvements in agriculture, and that extension of tillage, which has gone on so rapidly in the last half century, many have been led to consider that the continuance of the improved system of tillage depended in a great degree upon high prices; and, at any rate, that the cultivation

of poor soils did so. But this is an error. The rapid strides this country has made in agriculture, though much indebted to the rise in prices, in as far as it threw capital into the hands of the farmers, and might generate a spirit of enterprise, was chiefly owing to an increase of knowledge on agricultural subjects. Improvements have equally taken place in all other employments, from an increase of knowledge, and there is no reason why we should assign to agriculture a different cause for the same effect.

The degree of error, indeed, which has so long existed on these subjects, is most surprising. "The friends of monopoly," observes the ingenious writer on Political Economy in the Edinburgh Review, "need "not flatter themselves with the vain and delusive idea "that any system that can be adopted will enable them "to continue the cultivation of all the inferior soils "that were advantageously cultivated in 1813 and "1814. To effect this, prices would require to be "forced up to 100s. or 120s. per quarter, and long "before they had attained this level, either famine or "rebellion, or both, would be raging through the "country."—*No.* 81, *p.* 64.

As the art of cultivation has gone on improving, it is hardly necessary to observe, that there are more inferior soils in cultivation now, than in 1813 and 1814. But taking the passage as it stands, it would be difficult to find a greater contradiction than it involves. We cannot suppose, as a famine would be raging through the country long before prices had reached to 100s. or 120s, the reviewer contemplated that the population would be increased with the rise. It therefore appears, that when our system of cultivation had been extended, the quantity of corn produced had been materially

increased, and our soil had been carried by the stimulus of high prices, to its highest point of productiveness, the whole country, without any increase of population, would, by his account, be on the verge of starvation! It seems much more probable, if suffering at all, that it should be from repletion.

I do not mean to accuse the ingenious writer of these articles of more erroneous views than the great mass of writers. The price of corn is a subject in which it will, I believe, generally be found that the most thinking have been the most wrong.

The Demand for Corn must proceed from the Supply.—To return, however, to the examination of the principles which give rise to the demand for corn. It is evident that a foreign demand for our manufactures cannot give rise to any such demand; though by producing high prices, it may have a tendency to increase the supply: that high prices are merely the result of a depreciation in the value of money, and do not, in the least, increase the demand for corn: that our foreign trade must on the average balance in commodities, so that the demand for our manufactures cannot exceed the demand we have for foreign commodities; and consequently, that the demand for corn, by means of the foreign demand for our manufactures, never can exceed the demand which would be created by the expenditure of our own income at home, had we no foreign trade whatever. Our inquiry is now consequently very much narrowed. It is evident that the demand for corn must proceed from the expenditure of our own income at home; and the question is, from whence is our income derived? We have seen that it is not derived from an increase of manufacturing population; that it is not derived from improvements

in machinery; that it is not derived from an increase of manufacturing capital; and that it is not derived from foreign trade. There is, therefore, only one source left from which it can be derived, and that is, from the soil itself. It must be the supply of corn which gives rise to the demand that causes its consumption.

Nor is this at all difficult to conceive. Colquhoun estimated in 1812 and 1813, that the amount of value yielded by agriculture in all its branches, was £216,817,624; while the gross amount yielded by mines, minerals, and manufactures, did not exceed £123,230,000, which places the relative importance of agriculture in a sufficiently important point of view; and renders it not by any means hard to believe that the produce of the soil should form the basis of the income of the country.

There ought to be this quality also in that which forms the basis of income, namely, that we can never have too much of it. Neither individuals nor nations ever complain of having too much income. It is the expenditure of income that causes a demand for and gives rise to the production of manufactures; it is the expenditure of income that gives employment to labour, and increases population; it is the expenditure of income which enables us to purchase foreign produce, and thereby enables foreigners to purchase ours in exchange. If we can only obtain income, every thing else will follow. Now, agricultural produce is in this respect different from all other commodities. We can never obtain too much of it. Other trades are frequently overdone. There are often more manufactories built than can find employment—more goods are continually produced than can be disposed of and consumed. Every man is obliged to look at the state of the trade

and the markets before he creates a fresh supply, in every thing but the produce of the soil; but the farmer has never any doubts of finding a market. He produces as much as ever he can. Whatever be the state of the prices, his object is to increase the supply. He is sure of a market for whatever he can produce. This affords another conclusive argument that agriculture is the origin and basis of income, and of course the cause of the demand which gives rise to the consumption of its own produce.

Another argument in favor of the proposition that the supply of corn creates the demand which causes its own consumption, may also be deduced from the principle of population. Mr Malthus has shewn, and all political economists admit, that population increases up to a level with the means of subsistence. Nor can the principle be for a moment denied, whatever may be objected to the modes of checking the too rapid growth of population which have been deduced from it.

Population in America, where the means of subsistence are plentiful, doubles itself in 20 or 25 years. In countries where no improvements have been made in the art of cultivating the soil, and the means of subsistence have not increased, population has remained stationary; and in this country, where the improvements in agriculture in the last 30 years, have rendered the soil, say one-half more productive than before, the population has neither doubled itself nor remained stationary, but has just kept pace with the increased means of subsistence.

Though population thus increases with an increase in the means of subsistence, it increases by means of a demand for labour. A great part of those who consume the produce of the soil never see it grow. They

are not induced to marry and rear families to consume its produce, because they see the soil is becoming more productive; they know nothing about it; their means of support are altogether derived from a demand for labour. If they can obtain employment at proper wages they never doubt being able to purchase food. It must therefore be obvious that there must be an intimate connection between the supply of food and demand for labour; and that as the means of subsistence increase, the demand for labour must increase. Hence it is further evident that the means of subsistence must form the basis of that income, the expenditure of which causes the demand for labour that gives rise to its consumption.

Income multiplies itself in its Progress to Consumption.—Income, however, once generated, will multiply itself in its progress, and pass through many hands before it is finally expended in a demand for that produce which gave it birth. One-third, or perhaps a less portion of the cost of the goods which are purchased by those who first receive the income from the soil, may consist in labour, and the rest in profits of capital. These profits form a new income to the parties receiving them; and they, after spending a portion in food, will spend the rest in luxuries and conveniences, which will afford incomes to other parties, and so on. In this manner, it is not extravagant to suppose, that the original income may be multiplied half a dozen or a dozen times, and every person have as much spending in the portion he obtains, as if he had derived it direct from the soil.

Land will yield income to the Community when it yields none to the Landlord.—Nor is the income derived from the soil to be estimated by the rent it yields. Land will yield income to the community when it yields none

to the landlord. Before it yields rent it must pay the expence of cultivation. This expence will consist partly in the wages of labour, and partly in implements, &c. by which the consumption of manufactures will be promoted, and from which income in the shape of profits of capital, &c. will be derived. These profits, of course, would be made, if it paid only the expence of cultivation, and yielded no rent. Hence rent is no exact criterion of the income derived from the soil.

Improvements in Machinery do not diminish the Demand for Labour.—We have stated that improvements in machinery diminish the demand for labour. It may be proper, therefore, to explain that they only do so in the particular employments in which such improvements take place. They do not do so upon the aggregate. If a person, for instance, invents a machine, which, with ten men, will do the work of one hundred, and exclusive of the raw material, sells the commodity at one half price in consequence, he gains the power of consuming income adequate to the support of forty men, and the public, by getting the commodity at one half price, save income adequate to the support of fifty. But this income, as we have before shewn, must be spent; it cannot be saved. Though it pass from capitalist to capitalist twenty times, it must finally come down in a demand for the provisions adequate to the consumption of ninety men at last. That this must be the case will appear evident when we consider what improvements have taken place in machinery, and the art of economising labour in the last thirty years; and yet the demand for it has gone on increasing with the increase in the means of subsistence, as much as if no such improvements had occurred.

We have thus endeavoured to prove by a variety of

facts and arguments which we believe will be found incontrovertible, that it is the supply of corn which creates the demand for it—a proposition which will necessarily lead to important practical conclusions. Let us, therefore, briefly recapitulate the evidence upon which it rests.

1. We have shewn in the previous chapter, that if the demand for corn were stationary while the supply fluctuated, the farmer would gain by a bad crop, and lose by a good one; but, that as the reverse of this is the fact, the demand in good years must increase, and in bad years fall off with the supply; and by consequence that the demand must depend upon the supply.

2. We have shewn, on the authority of Dr. Adam Smith, and a French writer quoted by him, as well as by reference to the want of demand for labour, which was experienced after the failing crop of 1816, that the demand for labour increases and diminishes after good and bad crops. Thus, shewing the connection between the supply of corn, and that demand for labour, by which the consumption of corn is promoted.

3. We have shewn that a difference of 3,500,000 quarters between the crops of 1819 and 1820 did not produce an observable difference in price of more than 4s. per quarter; and that a deficiency, in 1823, of 2,000,000 quarters, did not produce an observable difference of more than 3s. 3d. per quarter, which is at once, a natural consequence, and a clear proof, of the dependence of the demand upon the supply.

4. We have shewn, in the present chapter, that a demand for corn cannot be produced either by an increase of population, an increase of manufacturing skill, or manufacturing capital, or by a foreign demand for our manufactures; and that, consequently, it must pro-

ceed from the soil: thus clearly establishing the general principle stated by the facts adverted to in the previous chapter, namely, that it is the supply which creates the demand, and not the demand which creates the supply, as has been the opinion heretofore.

5. We have shewn, that if the supply of corn creates the demand, it must form the basis of that income, by the expenditure of which, the demand is caused; and, as we can never have too much income, if corn be the basis of income, it ought to be also consistent with experience that the soil can never be rendered too productive. This being a well known fact, in which the produce of the soil differs from all other commodities, it is an additional confirmation of the principle, that corn creates its own demand.

6. We have finally shewn, that it is a fact, admitted by all political economists, and cannot be denied, that population increases up to a level with the means of subsistence; while the apparent cause, at least, of an increase of population, is not the increased supply of corn, of which the population are in general totally ignorant, but the increased demand for labour. If, therefore, it is the increased supply of corn and means of subsistence which give rise to the increase of population, they must give rise to the increased demand for labour. Hence, those who admit the principle of population, must likewise admit that the supply of corn creates the demand.

SECTION IV.

On the Principle that all Alterations in the Price of Corn whatever, are Changes in the Value of Money.

From the foregoing, we may consider it reduced almost to mathematical demonstration, that the supply of corn causes the demand. This being the case, it follows that the demand must, at all times, be exactly equal to the supply. If the supply be twelve millions of quarters, there must be a demand for twelve millions; or if the supply be ten millions, the demand must be the same. Hence it must be evident that there never can be any fluctuations in price from fluctuations in the supply. If the demand be diminished as the supply is diminished, and enlarged as the supply is enlarged, the relative proportion between the supply and the demand will never be disturbed. Suppose I were this year to make a hundred yards of cloth or any perishable commodity that must be disposed of, and sell them for one hundred pounds, and in doing so supplied the whole demand; and suppose I were next year to make 120 yards: if the demand were not increased, I should be obliged to sell the 120 yards for £100—the supply would be increased while the demand remained the same. But if in making the 20 yards, I also created at the same time, a demand for twenty, I should not be obliged to sell at less per yard than the year before; in as much as the demand would have increased in the same proportion as the supply—the relative proportion which previously existed between the supply and the

demand, would not have been disturbed. And as this is the case with corn—as the supply and demand bear always the same proportion to each other, strictly speaking, no alteration in price from supply alone can occur.

Were it not for changes in the currency, the price at which corn sold, would always be the price at which it was purchased. The price at which it sells, determines the income in money to which it gives rise. The income in money causes the demand for labour in money. The demand for labour in money determines the amount of money which the labouring class have to give for corn, and what they have to give the farmer gets. It moves in a circle, consumption is promoted at the price which the corn produces, and the corn produces the price at which its consumption is promoted.

Alterations in the Value of Money of two Kinds, which may be termed Negative and Positive.—Hence alterations in the price of corn, must always be alterations in the value of money; and these are of two kinds, which for the sake of distinction, may be termed *negative* and *positive*. Negative alterations in the value of money are caused by the alterations in the supply of corn. If the crop of any year be materially below an average, while the quantity of money in circulation remains the same, it must, at least have a tendency, to produce the same effect in altering the value of money and prices for that year, as if without any deficiency in the crop, an additional quantity of money had been put into circulation. But these alterations can only be temporary. They must depend upon the crops. Positive alterations in the value of money are caused by variations in the amount of money in circulation. After an altera-

tion in the average prices from this cause is once produced, they will not again vary so long as the same amount of money remains in circulation. Prices may fluctuate from year to year, but on an average of years, or in average years, they will be the same.

Negative Alterations in the Value of Money, less than Positive.—Between, however, the effect upon price produced by an alteration in the supply of corn, and an alteration in the amount of money in circulation—between a negative and positive alteration in the value of money, there appears to be a considerable difference. The former has a much smaller effect upon price than the latter.

We have given in the appendix an account of the demand for stamps by the country banks, from 1810 (which is as early, I believe, as these accounts were furnished,) up to 1825; also the average prices and the state of the crops from the Farmer's Magazine for the same period.

By these accounts it will be seen that the prices almost always rose or fell, as money was put into or taken out of circulation, and consisted chiefly of a positive alteration in the value of money. And that where the state of the crops did not correspond with the fluctuations in the total amount of the currency, they had a very trifling effect in arresting the progress of any alteration in prices produced by these fluctuations. At the same time, with our currency, it must be admitted that there is no showing with great accuracy, the separate effect upon prices by these two causes, as they, in general, both operate together: the one having a tendency to produce the other. A failing crop produces a scarcity of income, and those, who, in better years, have deposited money with the banks,

draw it out of their hands. As this demand is general, and experienced by all the banks in the country at the same time, they are enabled to enlarge their issues. Hence a bad crop and an increase of issues go together; and it is impossible to say what portion of the rise which follows, is attributable to the increased issues, and what to the deficient crop. On the contrary, an abundant crop is apt to produce an opposite effect. Farmers have a greater than an average amount of income, the surplus of which they deposit with the banks. These cannot lend it all out again in consequence of the superabundance of it, except at a reduced rate of interest—a measure they seldom resort to. The currency, therefore, contracts; and prices fall, not so much from the abundant crop, as from the contraction of the currency which it produces.

Where we have had an opportunity of forming any thing like an estimate of the separate effects of the state of supply, upon the value of money and state of prices, as with the crops of 1819, 1820, and 1823, pointed out in the second section, these effects appear to be small. The difference between the crops of 1819 and 1820, was 3,500,000 quarters, and yet there does not appear a greater difference in price than 4s. per quarter; while the crop of 1823, which was 2,000,000 quarters deficient, did not affect the average price of the succeeding year more than 3s. 3d.

Were it not, indeed, that the currency is an imperfect instrument, there ought to be no change in price whatever; the demand should precisely correspond with the supply. But an increase in the quantity of corn cannot increase the amount of a metallic currency, and has a tendency to diminish the issues of banks. Notwithstanding this, however, it does appear that the cur-

rency makes more payments after a good crop, than after a bad one. The demand for labour in a good year, increases in money, without more money being in circulation, and *vice versa*. Of this fact we are certain; but how to account for it is more difficult.

If, indeed, we adopt the hypothesis of Mr Tooke, carried still further by Mr. Burgess, it will let us out of the difficulty. These gentlemen contend, that the enlargement of private credit in the shape of bills, &c. which takes place in periods of confidence, is a practical extension of the currency, and *vice versa*. Now, periods of confidence, are times when money is plentiful; and good harvests, when the farmers have large surpluses to deposit with the banks, necessarily produce these periods, and bad harvests the reverse. In addition to this, we may also add, that the surplus of a good harvest being lodged in banks, the money will be lent out by them, so far as they do lend it, at once, to those who will immediately expend it in giving employment to labour. By this means less currency will be required to promote the consumption of such surplus, than if the money had in the usual way, to make the whole circuit of society, which must necessarily be a long one.

On the other hand, with a bad year it is less difficult to see how prices may be kept down. The loss of income would immediately make money scarce; the agricultural class would be unable to pay their tradesmen, and would limit their expenditure and demand for goods; while those who had money in the banks would draw it out. This latter effect, except in so far as it was met by an enlargement of issues, would compel the banks to withdraw their usual accommodation to trade. The tradesman would consequently find himself unable either to sell his goods, or get payment for those he

had sold; or get any assistance from the banks, whom he would, on the other hand, be obliged to pay what he was owing them. Under these circumstances he could order no more goods, and what sales he did make would have to be out of his old stock.

Hence the income by the sale of the corn would not reach the manufacturer in the usual manner. As soon as the money came into the hands of the tradesman, instead of being employed in purchasing more goods, it would, through the banks, come again into the hands of the farmer and landlord, without the income having promoted, in the usual way, the consumption of the corn from which it was derived. Thus the manufacturers would be thrown out of employment, and the price of corn would be kept from rising.

In whatever way the fact may be accounted for, certain it is, that in good and bad years, the capacity of the currency, is in one way or another, increased and diminished. At the same time, so far as prices are affected by such years, it is still an alteration in the value of money. The change of price arises from no discrepancy between the real supply and real demand. These bear the same relative proportion to each other as before.

A Metallic Currency subject to the same positive Alterations in the Value of Money as a Paper Currency.—In countries, however, it may be remarked, where there are metallic currencies, to which, it might be inferred, that a bad harvest could not make any positive addition, it is observed, that in bad seasons prices often rise very high; even higher than with us where the banks increase their issues. This seems to refute the idea of the currency accommodating itself to the seasons; but it is an error to imagine, that a metallic currency

cannot be increased. In Spain, and other countries, where these elevations of price in bad harvests have been more frequently observed, they have very few banks; yet, notwithstanding this, people who can do so, always endeavour to have a certain supply of ready money. This, in England, would be kept in the banks, who would lend it out again; but, where there are none, it must be kept in chests and boxes. In bad years, of course, when the people's incomes fail, and they have no other resource than these stores to apply to, they are brought out, and put into circulation, and a large addition to the currency, and high prices, are the consequence. But high prices, thus produced, it is obvious, are the result of a positive alteration in the value of money—an alteration produced, not by the deficient supply of corn, but by the addition made to the amount of money in circulation.

SECTION V.

On the Importation of Foreign Corn.

Foreign Corn creates its own demand.—In our previous reasonings we have assumed, that for some cause or other we could not import foreign corn, and that we altogether depended upon what we produced at home; and, we now come to consider how far the principles we have established under that supposition, will apply to corn received from other countries. We have shewn that corn creates its own demand, and that it cannot be produced in too great quantities; and it is important to know how far these principles, particularly the last, are applicable to corn imported from abroad.

If corn creates its own demand, there can certainly be no reason why it should not do so imported from Dantzic, as well as imported from Yarmouth. The manufacturer knows nothing of where the corn which he consumes, comes from, and there does not appear any reason why the same principles which promote the consumption of the one should not promote the consumption of the other. At the same time, if we can shew that foreign corn also creates its own demand, we shall still further establish the truth of the principles already laid down.

We have seen that when a nation experiences a greater foreign demand for its manufactures than it has for foreign commodities in return, at the existing value of money and state of prices in it, and in the countries it deals with, a balance of payments arises in its favour. The effect of this, we have seen, is to raise its prices,

and depress those of the countries it deals with, until their demand for its commodities is reduced to a level with its demand for theirs. An elevation of prices thus produced, it has likewise been proved, is a great advantage, inasmuch as it renders all foreign commodities relatively cheap, and gives the manufacturing nation, with the high state of prices, a greater power of consuming them.

These consequences of a great foreign demand for manufactures would arise if foreign corn were excluded; but if the importation of it were allowed, the case, it is well known, would be different. Prices would not rise higher than the level at which it could be imported.

This, however, would not proceed from the increased supply of corn, as has been generally supposed. A supply of ten millions of corn, added to one hundred and fifty millions, though there were no increase of demand, could not reduce prices below one-fifteenth, or about 4s. per quarter on 60s.; whereas a demand for ten millions, produced by an extra foreign demand for our manufactures, we have shewn, would increase the price 12s. per quarter at least, if not twice that amount. Without, therefore, some other means of preventing the rise in prices, a mere supply of foreign corn clearly would not produce that effect.

It might do so indeed, by taking the money out of the country in payment for the corn on the one hand, as it was received in a demand for manufactures on the other. But this, in a very short time, would put an end to both supply and demand. It would reduce the demand for our manufactures where the money came from, and increase the price of corn where it went to, and in sufficient time would terminate the trade. Whereas the supply of corn we have in view would

keep down prices, not by checking the trade, but by extending it. The supply of corn would be increased and the demand too.

In order to explain this, we will suppose, that without the importation of foreign corn, but at such a price as it could be imported, the foreign demand for our manufactures amounted to thirty-five millions, while our demand for foreign commodities amounted only to thirty millions. We should, in that case, have a demand, amounting to five millions, that we could not continue to supply; and which would be checked were foreign corn excluded by our receiving the balance in money, by our prices in consequence rising, and those of the countries where the money came from falling, until the trade was brought to a balance. Now, it must be evident, that a mere supply of foreign corn would not be wanted, so far as that supply might be supposed to enable us to furnish the extra five millions of manufactures. We have no difficulty in supplying such an extra demand at any time; we could supply five times the quantity without any more corn. The difficulty would be in getting payment for them in commodities; the only condition upon which we could continue to supply the demand. Observe, for instance, how the demand arises. Foreigners, out of their income derived from the soil, are desirous to purchase and consume thirty-five millions worth of our manufactures. But, it is necessary to the existence of that income, that the produce which gives rise to it should be sold; and, if we could not take a corresponding amount of their produce, they could not continue to purchase thirty-five millions in value of our manufactures.

The trade must be a trade of barter, or it cannot be continued. The effect, therefore, of an importation of

foreign corn, must not be to enable us to supply the demand for manufactures, for that we can do without it, but to enable us to take five millions of foreign commodities in payment for them.

Now, this it would do in two ways: in the first place, the greater part of the commodities exported to pay for the corn, would, no doubt, consist of foreign commodities; and in the next, it would furnish an income to a considerable population of manufacturers and others, part of which would also be spent in consuming foreign commodities. Our manufactures would, of course, be exported in purchase of the foreign commodities re-exported in payment for the corn. But this would amount to the same thing as if they were sent to Poland in purchase of the corn direct. The corn, as we have shewn with regard to that produced at home, would form the basis of the income derived from the sale of them.

Thus the imported corn would not merely supply a demand, it would create one. It would give rise to a consumption of foreign produce, and thereby promote a demand for our manufactures, adequate to the consumption of itself.

This would equally be the case, did our trade previously balance in commodities, and were corn imported, in the first instance, without any extra demand for our manufactures having arisen, provided payment were taken for it in commodities. These would consist either of our manufactures, or of colonial, or other foreign produce. If they consisted of our manufactures, we should at once derive an income from them, the expenditure of which would cause a demand adequate to its consumption; if they consisted of colonial produce, the property of persons residing in this country, it would

be the same; or if they consisted of other foreign produce, there is little doubt that the demand for it would re-produce a corresponding demand for manufactures.

The latter, however, might be some time in being brought about. The corn must have been brought to market and consumed, before the demand for our manufactures could arise. Notwithstanding this, no fall of price would be experienced. The parties who sold the foreign produce with which the corn was paid for, would obtain for it a sum in ready money adequate to the consumption of the corn. This they must either spend themselves or lend to others who would do so; so that the money would be put into circulation, and would in one way or another create a demand, that would promote the consumption of the corn, whether there was an immediately corresponding demand for manufactures or not. This consumptive demand, however, might, and probably would in part be created through the medium of an increased demand for manufactures. The money would be lent out to those who would employ it in increasing their stocks of manufactured commodities. Thus, as it were, creating an additional supply, in anticipation of the additional foreign demand that might be expected, in return for the increased demand for foreign commodities which the importation of the corn had caused.

Thus it is clear, that corn imported, creates its own demand, as well as home corn. That it does so, is indeed obviously capable of demonstration, by a much less elaborate process of reasoning, than in the case of home corn; and as the demand for home and foreign corn must necessarily, as we before inferred, be governed by the same principles, what is proof in the one

case is proof in the other. If foreign corn creates its own demand, so must home corn, and *vice versa.*

Foreign Corn cannot be sold in Competition with our own.—Hence it follows, that the idea of foreign corn coming into competition with our own, is altogether erroneous. A trade in corn may alter the value of money, and scale of our prices; but corn can never be imported from other countries, without a consumptive demand for it, over and above the demand which exists, and must exist for our own. The quality of the land on which it may be produced, either abroad or at home, is of no importance. Cost of production has nothing to do with it. We cannot purchase corn out of our own income, at any price. Our income is derived from corn, by which we of course mean food generally, and it is necessary to the existence of that income, that it should be directly, or indirectly, spent, in promoting the consumption of the identical produce from which it is derived.

Supposing that at a price at which corn could be imported, with a profit, our trade in commodities balanced,—that while we shall say our demand for foreign commodities amounted to thirty millions, the demand for our manufactures amounted to thirty millions likewise, and that an importation of corn would not increase this demand. Notwithstanding this, if the price was sufficiently high, corn would be imported, and it would be purchased and paid for out of our own income. Our own income could, in that case, be the only source of the demand; but it is evident that the corn would have to be purchased with money. The balance of payments would be turned against us, to the extent of the value of the corn imported. If the amount of our exports were not increased, by the corn imported,

the amount of our imports would, to the extent of its value. By this means, the price of corn would fall, and it would go on falling, until it was too low to pay the importer. Thus an importation of corn might alter our scale of prices; but if corn were raised in Poland by the wand of an enchanter, it could never continue to be imported for actual consumption, in competition with our own. Corn must create its own demand, or we cannot receive it.

A great Demand for Foreign Corn would diminish the Supply we should obtain.—But on the other hand, supposing that an extra demand should arise for our manufactures, and that we should have a great demand for corn, at increased prices, it does not, as some have supposed, follow that we should obtain a larger supply in consequence; on the contrary, it is probable that we should obtain a much less supply, than at more moderate prices.

The quantity of corn we can obtain from any country, depends not upon the cost of producing it, as has all along been imagined, but upon the demand such country has for foreign commodities. Suppose, for example, that Poland, at a scale of prices, and monied income, corresponding to 25s. for wheat, has a demand for two millions of foreign commodities, and its exports in hemp, timber, corn, &c. amount to two millions, at that level of prices. Let us again suppose, that a great demand for our manufactures should arise, and of course for corn; that the prices, in this country should, consequently, rise to 65s. or 70s., and in Poland, either with a free trade, or under the proposed corn law, to 50s. or upwards; and that our demand should continue at these prices. The result would be, that in the course of a little time, the price of hemp and timber would

rise in proportion, and the value of its exports would be doubled, though there should be no increase in the quantity exported whatever.

Now, it must be remembered that the demand for our manufactures, by which the increased demand for corn would be generated, would not enhance the price of tea, sugar, coffee, tobacco, &c. a shilling, if it had not an opposite effect, while all the evidence we have upon the subject goes to negative the supposition, that the demand by the Poles for these commodities, would be doubled in less than a quarter of a century, if in that time. We shall suppose, however, that it could at once be increased fifty per cent. Upon this supposition it is evident that the balance of payments would be in favour of Poland one million. Its exports would be four millions, and its imports only three. The result of this would be, that its scale of prices would of necessity rise higher until its exports were reduced to a level with its imports, by a diminution of our demand; so that the effect of an increased demand at double prices would be a reduced supply.

This principle is in part corroborated by an examination of the exports of corn from Dantzic, which have been regularly kept, together with the prices, by the magistrates of that city, since 1651, and are given by Mr Jacob in the Appendix to his Report. During the concluding fifty years of the last century, it is probable that the corn trade was subject to as few interruptions as in any other period; and it appears that the exports during the first 25 years, namely, from 1751 to 1775 inclusive, amounted on the average to 141,080 quarters, and the price to the medium average of 20s. 10½d.; while during the last 25 years, namely, from 1775 to 1800 inclusive, the imports amounted to 150,299 quar-

ters, and the price to the medium average of 29s. 4½d. Making an increase of about forty per cent. in the price, without any material increase in the quantity exported. This proves that an increase of price does not necessarily involve any material increase of supply; while it renders it almost certain that had the price been doubled, the supply would have been diminished.

Any increase of price would, no doubt, have the effect of increasing the supply for a time; but it would be for payment in money by which the supply would be ultimately reduced. The money, of course, would have the effect of increasing the price in Poland, and lessening the demand against another year.

Thus, it is of no importance whether a nation exports corn, or manufactures, or any other commodity, any material increase of demand will not increase, but diminish, the supply obtained.

The last Principle only applicable to fully peopled Countries, and not to North and South America.—This, however, must be understood as only applicable to countries fully peopled. Where the soil has not all been cultivated, as in North and South America, a demand for its produce will always ensure a corresponding demand for manufactures. It will give rise to a new income, which must be spent, and which there is no other means of spending, but in the purchase of foreign commodities. Suppose a farmer in Canada, with the money he got for his wheat exported to this country, were to employ labourers to clear fresh land, they would expend their wages in purchasing the luxuries, not the necessaries of life, and these must be foreign commodities. As far as the money might be spent in purchasing corn, it would give rise to a home demand for corn, and the farmer would raise as much

money as that portion of their wages amounted to, from his home sales, independent of what he sold to England; so that the income raised from the corn sold to England must all be spent in the consumption of foreign commodities.

This principle is as equally applicable to the produce of South as of North America. Where a country is not fully peopled, there are no means of spending income in the produce of manufacturing labour; nor any means of creating income except by a foreign demand for the produce of the soil. Population is as necessary to income, as income is to population. Our demand for the produce of the soil of America, is, therefore, tantamount to furnishing it with a manufacturing population; and is certain to re-produce a demand for our manufactures, or for other foreign produce by which a corresponding demand for our manufactures is secured.

But this increased demand for our manufactures could never be created with a country fully peopled. With it the soil yields as much income as it can be made to produce, according to the best system of cultivation its inhabitants are enabled, whether good or bad, to apply to it. The mode of spending that income is settled, the habits of the people fixed, and their demand for foreign commodities determined, which nothing could alter the amount of, their income remaining the same, but cheapness. In this state, any increased demand for their commodities, would not make their soil more productive; it would not increase their real income in the least; nor yet have the immediate effect of increasing their consumption of foreign commodities. But by determining the balance of payments in favour of the country, it would increase its prices,

while it reduced those of the countries it dealt with, and make its commodities relatively dear, and theirs relatively cheap. This we have before explained would not have the effect of increasing its exports, but of diminishing them; so that the increased demand which led to this alteration in prices, would be met by a diminished, not by an increased supply.

From this, it is clear that the trade with the Americas, including that of our West India islands, is the best trade we can cultivate—more especially, where, from the extreme heat, as in South America and our islands; and from the extremely cold and long winters, as in Canada, Nova Scotia, and New Brunswick, no manufacturing population can ever be expected to arise. In our North American colonies, the severity of the cold in winter, which puts an end to all labour, seems to render it unnecessary in agriculture, as it prepares the soil for the production of corn much better than any labour could do. While, on the other hand, the heat in the tropical climates appears to perform the same office for their productions. If it render labour less supportable, it renders it less necessary. The produce of the soil is, at all events, the only produce which either very hot or very cold countries can furnish. Manufactures must be obtained from where the climate offers less obstruction to human industry. With the countries above mentioned, therefore, a trade once established will be permanent.

Gold from South America as much a Commodity as Cotton and Indigo.—It will, perhaps, be proper to mention, in this place, that gold from South America is not received upon the same principles as from any other country. There, it is an article of annual produce, and is as much the subject of regular export

as cotton and indigo. In this character we receive it, and it must be exported again upon the same principles, after deducting the amount of our annual consumption. To a given extent, therefore, the import and export of gold is no more a proof of excess, or deficiency, in our circulating medium, than an import and export of any other article of commerce.

SECTION VI.

On the Interest of the Working Classes in the Question of the Corn Laws.

A very important point in considering the corn laws, and which has furnished arguments on both sides of the question, is the effect they are calculated to have on the interests of the labouring class; and on this subject it will be proper to make a few observations.

The Average Price of Corn of no Importance to the Working Classes.—It will have been clear, from what we have already stated, in the previous Sections, that the average price of corn can be of no importance to the labouring classes as far as regards the supply of food; that they will obtain no more corn at a low price than at a high one, or if any thing, that they will get less. When a high price of bread is the result of actual scarcity produced by a failure in the crops, it is another matter. But that is not the question. All legislation has reference to average price. In a scarcity, the laws, whatever they may be on the subject of corn, are generally suspended, and often reversed. Measures are adopted under such circumstances, which are suited only to the period, and which would be extremely impolitic as general laws. It is therefore to average prices and supplies that our attention is more particularly directed.

High average prices, as we have seen, never can proceed from want of corn. On the contrary, they generally give rise to an increased supply, and the condition of the poor, at least for a season, is consequently improved. That high prices, indeed, can be no injury

to the poor, when not the result of a diminished supply, will be obvious on a moment's consideration; for it is the demand of the labouring class which determines the price; and if they had not the money to give for it, the farmer could never get a high price. The great consumption is by the lower classes. The demand of the rich does not make corn high or low. They consume the same quantity whatever be the price. And so indeed do the poor. But the money they have to give for what they consume determines the price whether it be high or low. They give all they have, and the price depends upon the sum this amounts to.

If a rise in price benefits the poor, by increasing the supply, so on the other hand, a fall in price injures them. It diminishes the capital of the farmer, and compels him to throw agricultural labour out of employment; and it may be considered that for every agricultural labourer thrown out of employment, two manufacturing or other labourers are thrown out of employment also. Agricultural labour is employed for the sake of the surplus produce it yields; and that surplus creates income, which gives employment to other labour: so that whatever impoverishes the farmer and checks his operations, injures and impoverishes all.

As a general principle, however, the average price of corn, whether high or low, is of no importance to the working classes. It neither indicates scarcity nor abundance; but only the existing value of money. It is of more importance to them, that prices should remain steady, at whatever level it be; for all changes in price take place through the medium of the demand for labour, which is increased and diminished by such changes in particular employments. By this means, one class of labourers are pinched, while the others

have abundance; and the reverse. It is desirable that employment should be equally divided and regularly obtained, which nothing but steady prices can secure.

An Increase in the permanent Supply of Food, of no Importance to the Working Classes.—Neither is a permanent increase in the supply of food of any value to the labouring class, except for the first few years after it takes place. Indeed, unless it takes place very suddenly, it is scarcely felt. After a country is fully peopled, and its soil cultivated, any increase in its productiveness must be the result of increased skill in cultivation. This, compared with the tendency of population to increase, is so very slow, that the immediate benefit to the poor from such increase in the means of subsistence, is never observable.

The demand for labour, compared with the supply, is not greater now than it was thirty years ago, although the kingdom produces one-half more food than it did then. The style of living of the labouring classes may be improved; but that is the result of improved habits. The style of living of the same classes, in the same period, has deteriorated in Ireland, though there is no doubt that the productive powers of the soil in Ireland have increased in as great a degree as in England.

Except, therefore, for a comparatively limited period, the comforts of the poor cannot be increased by an additional supply of corn. It is found, by experience, that with an unlimited supply of food, as in the Americas, where there is so much good land uncultivated, population doubles itself in twenty-five years. Hence, if we could double our supply of food, the labouring classes would be benefitted for that period; but would afterwards be in the same state as before. The produce also, of the United Kingdom, is computed to be twelve

millions of quarters of wheat, and other grain in proportion, besides butcher meat. We have at once, therefore, a scale by which to calculate the immediate benefits to the poor of an increased supply of food. If the increased supply be equal to one-half the produce of the kingdom, the poor will be benefitted for twelve years and six months; if one-third of that quantity, for six years and three months; and, if equal to one-twelfth of it, for two years and one month.

It can never be for a moment denied that an importation of foreign corn would be immediately beneficial to the poor; but that benefit would be limited to the time population would take in increasing up to a level with the increased means of subsistence. And as we can probably estimate the utmost amount of foreign corn we could possibly receive, upon throwing open our ports to the admission of it, we can form something like an idea of the utmost benefit which the labouring classes could derive from the measure.

The greatest amount of foreign corn ever imported into this country was in 1818, when the wheat imported amounted to 1,586,030 quarters, and other grain in proportion. This supply was obtained by our giving upwards of eighty shillings, when the average price in Poland, Prussia, &c. without our demand, would not have amounted to forty. It was also chiefly paid for by an exportation of money; so that there is little doubt, had our ports remained open, the supply in a few years would have been materially reduced, by an elevation of prices in Poland, Prussia, &c. as well as by a reduction of price in this country. But let us assume, that, in the event of the ports being thrown open, we should receive this amount of supply annually.

It must likewise be remembered, that if we were to

increase our produce of corn at home one million of quarters, there would be a due proportion of butcher meat with it. Suppose we assume this to be equal to one-half of the corn, or one-third of the whole. It will follow that 1,586,030 quarters of wheat imported, would not keep more people than two-thirds of the same quantity produced at home. But we shall not consider this. We shall assume that the amount of corn imported, would be equal, in all respects, to the same amount produced at home.

Now, it appears that an increase of one million of annual produce would improve the condition of the poor for two years and one month. As our greatest importations never did, in any single year, exceed, except in a trifling degree, a million and a half, it follows, that if we could count upon such importations annually, which there is no reason to suppose, and making besides every other allowance, we could not calculate upon the population being benefitted more than three years and six weeks, by the opening, under any, the most favourable circumstances, of our ports, to the admission of foreign corn.

It may indeed be said, that population cannot be increased in so short a time, and that the benefit must extend to a longer period, which is no doubt true; but that would, in the end, lead to an evil which would more than neutralize all the benefits derived from the ease and comfort which the poor would experience in the first instance. Employment would become general. They would all marry, and for the first few years not feel any inconvenience. But the result would be, that three times the children would be reared, who as men, could be properly supported, and many years of privation and misery would have to be endured before popu-

lation would again be reduced to its just proportion with the supply of food.

Any sudden increase in the supply of food and demand for labour, which takes, from a whole population, for five or six years, that prudence with regard to marriage, which it is necessary to their future comfort should be observed, is much more likely to be an evil than a good.

Thus, at all events, the immediate benefits which would be derived by the working classes from the importation of foreign corn, would be either short-lived or problematical; while the ultimate benefits would be nothing, inasmuch as population would, in no long time, be certain to increase up to a level with the increased means of subsistence.

Laws are made, however, with reference to their lasting effects, and not with a view to temporary advantages; and this ought to be more particularly the case with reference to population: for, when once called into existence, it is not quite so easy to get rid of it again.

In considering, therefore, the advantages of importing corn with reference to the poor, we ought to consider its effects on the average, say of a century; and taking such a number of years, or half the quantity, it is impossible to say that the poor would be in the least advantaged by an importation of corn, if they were not injured by it. The only true interest they have in the question is, not that the supply should be great, but that it should be steady. If we admit foreign corn, which gives rise to a population dependent upon it, we ought to take good care, before we do so, for the sake of such population, that the increased supply is to be depended upon.

A manufacturing population, dependent upon sup-

port from a foreign soil, is in an unnatural and somewhat dangerous situation. Nature evidently intended every man to be fed by the land he lives on: for she has made it as a general rule, the interest of all classes to totally exclude foreign corn. Even the manufacturing classes, which are dependent upon home supply, are always the greatest sufferers in a bad harvest: those always suffer most, whose labours for a season can be best dispensed with. But when dependent upon foreign supply, they are in a bad harvest altogether at the mercy of governments, who, if they are not totally devoid of sympathy for the suffering of their own people, will cut off the supply altogether. This was our policy when we were a corn exporting country, and why should not other nations adopt it.

In reply to this it may be said, that bad harvests seldom occur in more than one country at a time; and if our foreign supplies come from different countries, we shall be more certain of a steady supply upon the average. But even admitting this, it would scarcely be desirable to depend upon foreign supplies to any very great extent; except from our own colonies, which are under our own government. All manufacturing nations that have depended much upon foreign supplies, have been more or less short-lived. Agriculture is the trunk, and manufactures the head of national wealth; and the moment the trunk was severed from the head, the latter would droop and die away as a matter of course, both from want of corn and want of means to purchase it.

Thus we have come to two conclusions, which it is important to keep in view: first, that the price of corn is of no importance to the poorer classes, and next,

that an increase in the average supply of corn from foreign importation is of no benefit to them.

First, the poor will get all the corn there is for them, in return for whatever money they have to give for it, and the price depends upon the amount of that money; and next, any increase in the average supply from foreign importation, if it does not do harm, will do so little good, that it cannot be set in competition with the evils which would result from any uncertainty with regard to the continuance of the supply, after a population has become dependent upon it. So that as regards the poor, the question is not so much whether foreign corn ought to be imported, as whether it ought to be prohibited. At all events, if we admit the arguments in favour of and against its importation to be equally balanced, we may fairly assume it to be a matter of perfect indifference to the poor, whether its importation be permitted or not.

SECTION VII.

On the Principle of Taxing Foreign Corn.

The defective Principle of the Corn Law of 1815.—The effect, we have seen, of excluding foreign corn altogether, is not to create any scarcity, but to enhance the price of corn by depreciating the value of money with reference to every article of home produce. A rise in the price, we have seen, does not indicate a demand on our part for foreign corn, but a demand on the part of foreigners for our manufactures. When a rise takes place, we can take foreign corn, but we can do as well without it. We have a demand for it in money, or rather in foreign commodities, but the nation itself has no demand for it.

This was not understood when our present corn laws were passed in 1815. It was then supposed that a rise in the price of corn always indicated a scarcity of it to a certain extent; and it was enacted that when wheat reached 80s., our ports should be thrown open to free importation, and that they should be closed after the price, for a given time, had fallen below that rate.

Eighty shillings was thought, at that time, a price which could be maintained; and had our manufacturing superiority been such as to have maintained it, our currency would have been kept in a constant state of derangement by those laws. When prices were raised above 80s. by an extra demand for our manufactures, and a balance of payments in our favour, the demand for corn might be trifling; and, at all events, the few shillings which prices had risen above 80s., would be all the

premium requisite to obtain the supply of corn, and by that means create the demand for foreign commodities necessary to bring our trade to a balance at that level of prices. But, if prices rose high enough to open the ports and no more, we might not have had any demand for corn whatever. Now probably the average price at which corn might be landed in England at that period, the English ports being shut, might be 40s.; so that on the opening of the ports, without any real demand for a single bushel, we should have given a most enormous premium for all the corn that could have been imported. This, of course, would have been chiefly paid for in money, prices would have fallen, and the ports been again shut; until the foreign demand for our manufactures had again brought the money back, and opened the ports as before.

This would have been a total perversion of what ought to have been, and what was intended to be, the object of the law, namely to keep prices steady. The price of corn, however, is determined by the amount of money in circulation, and whatever alters that amount does not keep prices steady, but deranges them.

Nature points out that a Tax on Corn is the best Mode of keeping Prices at a particular Level.—This naturally leads us to the consideration of what will keep prices steady. If we wish to keep up our scale of prices above the level of Europe, and yet not exclude foreign corn, how can it be admitted in the requisite quantities to keep prices at the level required? for it must be remembered, that the higher the level, the less will be required. Now, nature herself very clearly points out, that this must be done by levying such a duty upon it, as will, in addition to the import price, prevent its being sold with profit, beneath the price to be maintained.

If we had a free trade in corn, we could not import it, until prices were sufficiently above the level of Europe, to cover the charges of bringing it. The moment prices would not cover them, with a profit, importation would be suspended. The freight and charges are a natural corn law, by which prices are kept at a certain elevation above the level of Europe. Now, a duty would precisely have the same effect; and it could not be different in principle.

A part of the income derived from the sale of the corn, would go to pay the freight and charges, and would be spent, by those who received them, in promoting its consumption. A part would go to government, and would be spent in keeping a navy to defend the ships that brought the corn, and an army to protect the manufacture that made the commodities which paid for it, or would in some way or other be spent by the officers or creditors of government; so that a demand for corn, proportioned to the amount of freight and duty would be created, while the remainder would be spent in a demand for manufactures, with which to pay for the original cost of it.

There can be no distinction in principle between freight and duty. If the freight and duty amounted conjointly to 30s. it could make no difference as regards its effect in keeping up the price in this country, or the effect of the price so kept up in its different bearings, whether the 30s. was all freight or all duty. Hence, to impose a duty, is the way pointed out by nature, as the proper one to keep up our prices at any particular level.

A Tax on Foreign Corn, not paid by the people of this Country, but by the Foreign Consumers of our Ma-

nufactures.—Next as to who pays the freight and duty. In the first place, it must be evident that they would not be paid by the people of this country. Their effect would be to keep up our prices above the level of Europe, and thereby increase the exchangeable value of our produce; and so increase our wealth and power of consumption by making foreign commodities relatively cheap. Whether we obtained ten thousand or ten millions by a duty on foreign corn, the nation would feel no other effect from it. The duty could, consequently, be no burthen upon it whatever.

The income from the corn also would give life to a new population quite independent of that which our own soil will support—a population that might as well have been situated on a barren rock. Suppose, that upon a rocky island, now inhabited by sea gulls, a seam of coal should be discovered, and a manufacturing population should arise. They would, of course, have to sell their manufactures to more fertile countries, and from them receive their supplies of corn. Now, wherever there are people there must be a government, and it must have funds to pay its expences with; and suppose these were raised by a tax upon corn. It is manifest that it could not be paid by the people of the island: for they could pay nothing whatever that they did not receive. They could no more pay the tax than their predecessors the sea gulls, from any resources of their own.

As regards corn imported, we are precisely in the same situation as if England were a barren rock. All charges the corn is subject to, whether of freight or duty, must be paid by those for whose convenience the manufacturing population is created which consumes it.

This, however, is seldom the parties who supply the corn. Suppose the price of the corn delivered without

duty to the inhabitants of the island were 40s., a duty of ten shillings would raise it to 50s., and as much money would be obtained for the corn by the growers of it as before. Now the price of the manufactures of the island would be raised to a level with 50s.; but if payment for the corn were taken in tea, sugar, &c. the produce of other countries, these evidently would not be raised by the tax. Hence, the grower of the corn would get as much tea, sugar, &c. for his corn as before; and the tax, in so far as he took payment for the corn in these commodities, would not be paid by him. It would evidently be paid by those nations who took manufactures at the enhanced prices, in exchange for the tea, sugar, &c.

This is reasonable. It would be the demand for manufactures that would give rise to the consumption of the corn. The growers of the corn might not want manufactures, though they might want tea and sugar, and upon these they would have to pay all charges. The more the tea and sugar cost, the less they would get of them in return for their corn. Thus the duty levied upon foreign corn imported into this country, is paid by the foreign consumers of those manufactures, the demand for which gives rise to the demand for the corn, and not by the growers of the corn, in as far as they take payment for it in colonial produce, and other foreign commodities.

The Advantages of a Tax upon Foreign Corn.— Hence, the advantages of a tax upon corn may be thus enumerated. It is a tax exclusively paid by foreigners. It keeps up the exchangeable value of the produce of this country generally, by which our power of consuming foreign commodities is increased. It keeps down the price of the hemp, timber, and other produce ob-

tained from the countries from which our foreign supplies of corn are drawn; and finally it increases, in all probability, the quantity of corn obtained from those countries, if this be an advantage.

At all events, a free trade in corn would not produce what its advocates expect from it in regard to increasing our supplies from the Baltic: the source from whence they have hitherto been chiefly drawn. If the quantity were not less than would be imported with the imposition of a proper duty, it would not be greater; while it is certain that a free trade in corn would, in time, enhance the price of every other article of Baltic produce. It therefore has nothing to recommend it.

Mr M'Culloch's Objection to Corn Laws examined.—This is rather a different view of the subject than it has been usual to take. Corn laws have always been considered as necessary evils, even by their advocates; while by their opponents, they have been condemned as the greatest, I might almost say, curses, with which a commercial nation can be inflicted. So far from a tax upon foreign corn being one which does not fall upon the people of this country, Mr M'Culloch, to use his own words, considers it to be "an incontrovertible position, "that every additional shilling added to the price of "the forty-eight millions of grain (of all kinds) consumed in the empire, by means of the prohibition "against importation, is really equivalent in its effects "on the consumer to a tax of £2,400,000 laid directly "on corn."—*Edin. Rev. No.* 88, *p.* 340.

Or in other words, that we might as well impose a direct tax of a shilling a quarter upon all kinds of grain produced in this country. Indeed, it appears we had much better do so; for he goes on to show that three-fourths of the tax levied by means of prohibition is

wasted and thrown away: whereas, a tax of a shilling per quarter by a direct impost, though it might be a burthen upon the public, would be received by one party or other who would be benefitted by it. Our present corn laws he considers to have been equivalent to a tax of eight shillings per quarter, or about nineteen millions. They have, therefore, been a dead loss to the nation of about fourteen millions per annum.

In the 92nd No. of the Edin. Rev. recently published, he observes, "it is plain that they (the landlords) "would not receive, on the most exaggerated estimate, "five millions of the nineteen which the corn laws "force out of the pockets of the public! The rest are "wasted without advantage to any individual whatever; are, in fact, as much destroyed as if they were "cast into the sea or the fire. The advocates of agricultural monopoly may rail, quibble, and carp at this "statement; but the only objection to which it is liable, is, that it depreciates the loss occasioned by the "corn laws."—*P.* 402.

If this were true, it is clear that our manufacturing skill and industry must be a great evil, under any circumstances. It has never been denied, that our demand for foreign corn is the result of the great sale we have for our manufactures.

Now, foreign corn cannot be imported into this country under, at least, 6s. per quarter freight and charges—a natural corn law, which we cannot repeal; and which operates in raising prices precisely in the same way as any other corn law. A rise of six shillings, according to Mr M'Culloch, would be equivalent to a duty, on the people of this country, of £14,400,000. Thus a demand for our manufactures, which produced a demand for foreign corn, must, be-

fore a cargo could be imported, impose a tax upon the people to that amount, three-fourths of which might as well have been thrown into the sea or the fire. Hence it is clear, that the evil would consist, not in our imposing a tax upon foreign corn, but in our having any demand for it whatever. To have no demand for it is the only way in which we could avoid Mr M'Culloch's tax; and, as the sale we have for our manufactures gives rise to this demand, our shortest way would be, to prevent such sale, by throwing them into the sea or the fire. This would strike at the root of the evil, and be as legitimate a remedy as we could adopt.

The true way to ascertain the correctness of any principle is, to examine to what it leads; and, if Mr M'Culloch's views were correct, to put, in some way, a check, if not an end, to the sale of our manufactures abroad, would be our best policy. But this consequence of the truth of his doctrine we are persuaded Mr M'Culloch is not prepared to recommend.

SECTION VIII.

On the Corn Bill of 1827.

The corn bill of 1827, the particulars of which are given in the first section, (page 13,) thoroughly satisfied neither the agriculturists on the one hand, nor the advocates of a free corn trade on the other. The latter thought it gave too much protection to agriculture; while the other did not think it would give the protection it proposed. We hope, however, that the principles we have endeavoured to establish in the foregoing sections, will help to remove the objections of both parties.

The advocates of a free trade in corn will find, that it would not produce the results they have been led to expect from it. While, on the other hand, the agriculturists will perceive, they have no reason to apprehend that any accumulation of foreign corn which could take place in our warehouses, would injure them; that there is no truth whatever in the principle, that a small excess or deficiency in the supply of corn would have a great effect upon the price of it; and that, upon the whole, the views and fears which led them to oppose the bill, were not well founded.

Having, therefore, proved that the objections to the bill, both by the agricultural and the free trade party, are groundless, we will next endeavour to determine the principles by which it ought to be adjudged, and how far it is perfect or imperfect, according to these principles.

The Price at which Foreign Corn is allowed to be im-

ported, fixes the Value of Money, and adjusts the Contracts of Society.—In the first place then it must be remembered, that the price of corn is determined by the value of money, and that corn laws are the means of regulating its value;—that they keep foreign corn out, until the extra foreign demand for our manufactures has brought money in, sufficient to depreciate it to the extent, and raise prices to the level required.

Now the transactions and contracts of society, though expressed in money, are in reality contracts for the receipt and payment of commodities. Bank notes are nothing but paper, and gold in itself is of less real value than iron. It is the amount of commodities which the money will purchase, that is received and paid, when a payment in money is made by one person to another. Hence, if a person lends money to-day, which will purchase a given quantity of commodities, and receives back money at a future period, which will purchase only half the quantity, though the amount of money may be the same, he in reality has only received half of what he lent, and *vice versa.*

This is always the effect produced by an alteration in the value of money. The presumption, in all contracts for the payment of money, at a future period, is, that its value is stationary—that it will purchase the same amount of commodities at one time as at another; and when a change in its value takes place, every such contract is altered, and one party is benefitted at the expence of the other.

When, for instance, the value of it is depreciated, and the value of corn and all things rise, every one, whose property consists in money, loses a portion of it, which some other party gains. Every person, whose property is in money, if he have not hoarded, must

have it lent out in some way; and if a person, we shall say, have money lent on the mortgage of land, and the interest be equal to half the income from it, the mortgagee is entitled, so long as the rate of interest is not diminished, and the amount of produce not increased, to half what the estate yields, or to money which will purchase other commodities equivalent thereto. But were corn to rise fifty per cent., he would get only a third of the produce of the estate, instead of one-half. He would receive his interest, and his principal, if the mortgage were then paid off, in money, one-half less in value than that which he lent; and his means of living would be proportionately reduced. The effect would have been the same, had the money been lent on houses or buildings. The increased price of labour and produce would affect the price of all building materials, except in as far as they consisted of foreign commodities, the cost of house building would be thereby increased, and with it the value of house property. The same with money in the funds. The price of all things, and the monied income of the country rising, the taxes would be paid with a smaller amount of labour and commodities, and the creditors of government, though they received the same amount in money, would receive so much less in money's worth, namely, the power of living, or of purchasing labour and commodities. If a landlord, also, instead of having to pay a fixed interest, had to receive a fixed rent for a given number of years, he would be injured, while his tenant would be benefitted; and *vice versa*.

A rise in price, therefore, benefits all who owe, and have contracted to pay money; while, on the other hand, a fall in price benefits all who have to receive it. But whether it be a rise or a fall in price, it is as far as

regards the value of home produce, of which three-fourths of consumption consists, merely taking from one party to give to another, not according to their contracts, but in violation of them. It is an alteration produced, not by any alteration in the state of the supply and demand for commodities, but by a change in the quantity and value of money in circulation.

It is clear, therefore, that when we fix a particular price at which corn shall be allowed to be imported, we fix the value of money, and settle the terms for payment in commodities, or money's worth, of all existing contracts.

The contracts also thus settled, it is obvious, ought never to have been disturbed; and it is clearly desireable, that when the price is once fixed, it should be subject to as little alteration as possible. The law ought not to allow one person to be benefitted at the expence of another, as far as it can be prevented. The average prices, therefore, ought to be kept stationary.

Hence, these are the two chief points for consideration, in the proposed, or any other corn law, namely: first, the price of corn, and value of money, at which importation shall be allowed; and next, the tendency of the law to preserve such price after it is fixed.

Before these, all other considerations are of trifling importance. The first is to do justice between man and man, and the last to prevent injustice being done. The one adjusts the balance, and the other preserves it after it is adjusted. The landlords have no right, under the plea of getting our foreign luxuries cheaper, or on any other plea, to obtain a rise in prices, which shall enable them to rob their creditors; while those whose property is in money, have no right, under a plea of benefitting the poor, in which there is no foun-

dation, to obtain a fall in prices, by which to rob their debtors. The balance, if possible, between those parties, should be evenly struck, and steadily preserved.

Sixty Shillings, Winchester, or 62s. Imperial Measure, a proper Average Price, according to the Rule which a Nation ought to observe in fixing such an Average.—The first point, therefore, which we have to consider, is the price at which this balance is proposed to be struck, namely, 60s. per quarter Winchester measure, or 62s. imperial. The provisions of the proposed bill, it is expected, are contrived so as to preserve this price; and, after first considering the price, we shall next examine how far these provisions are calculated to maintain it.

Now, in settling the contracts of society, the same rule cannot exactly be observed that would be by a court of justice. If a person were to come into the possession of an estate, and to keep it for twenty or thirty years, and some other person were to discover that he had a legal claim to it, the law would turn out the possessor, were he to starve, and give it to the legal claimant, though he could do just as well without it. Had the party dispossessed of the estate never had it, or expected to have it, he would have learnt to live by some other means, and no harm would have been done him. But this the law would not consider. It would presume, however erroneously, that he had got possession of it wrongfully—that he ought not to have kept possession, and would turn him out, without mercy.

But this a government could not do. A change of property which has been sanctioned by law for twenty or thirty years, must be sanctioned for ever. The habits of the parties have become accommodated to the existing order of things, and could not be disturbed without great sufferings to one party, which would not be

at all compensated for by any addition of happiness to the other. Even in the case of the French nobility who were robbed of their property during the revolution, no one for a moment ever thought, that on their return to France after a lapse of twenty years, it would be proper to put them in possession of their estates again; not even though the original purchase money should be restored to the present possessors, and notwithstanding the great majority of these were fully aware, at the time they bought the property, that they were joining in, and giving effect to a robbery. The affair had been too long gone past to be reconsidered, and they received the compensation which was made them out of the public purse, and at the expence of all.

Much less would it be proper to make any material alteration in the value of money after so long a period had elapsed. There can be little doubt, that of the existing contracts of society, the majority of them have been entered into within the last ten years; and any change from a state of prices within that period to a state of prices beyond it, would do as much injustice to one part of society as it would do justice to another, independent of disturbing the settled order of things.

Ten years, therefore, is as far back as we can go with any propriety in order to fix a scale of prices at which the contracts of society shall be adjusted.

Now, if we estimate the average prices for that time, taking in the present year 1827, by which we avoid the year 1817, which, as it was a year of scarcity, should be kept out of any estimate, with a view to obtain average prices depending upon what we have termed the positive value of money, we shall find the average so nearly 60s. Winchester measure, as to make no matter.

1818,		83s.	Winchester measure.
1819,		72s.	
1820,		65s.	
1821,		54s.	
1822,		43s.	
1823,		51s.	
1824,		62s.	
1825,		66s.	
1826,		57s.	
1827,	say	52s.	

Average 60s. 6d.

Going, therefore, as far back as it seems proper for a nation to go in obtaining an average price, the one chosen appears to be a proper one.

How the different Classes have been affected by the change of Times.—The ten previous years, however, give an average of 89s., which is nearly 50 per cent. higher than that proposed, and the ten years again preceding, leaving out 1800, which was a year of scarcity, give an average of 71s. There are, of course, contracts now in existence which were made in both those periods. Those made in the period last mentioned, must be comparatively few, and the difference between 60s. and 71s. is not so material. But it may be well to enquire, how those parties are likely to be affected, who mortgaged their property and came under pecuniary engagements, in the ten years succeeding, when corn averaged 89s.; as well as what effect the change of times, from that period to this, has produced generally upon all classes of persons. Should there be any whose case is a hard one, if it cannot be remedied, it is very proper it be understood, when

a law is to be made, which will affect the property of all.

It must previously be observed, that in 1810, 1811, 1812, and 1813, when the prices were the highest, the public had become aware that the currency, to a certain extent, at least, was depreciated, and that these high prices would only be temporary. The average without these years was only 76s., and 80s. is perhaps the highest average that prices were expected to continue at. Indeed, it was proved in 1814, that 80s. was to the farmers then, what 60s. is considered now, namely, a remunerating price at the then rent of land, and cost of labour; and 80s. was in consequence fixed upon as the import or protecting price. We should, therefore, take 80s. rather than 89s. as the average of the ten years in question.

It must also be remembered, that not only was labour and every thing depending upon the price of corn, high in proportion, when prices averaged 80s. or 89s., but the taxes, and what had a still greater effect, the profits of trade, were much higher at that period than at present. These have been reduced from causes independent of the alteration which has taken place in the value of money. The taxes have been taken off in consequence of the reduced expenditure of government; while the profits of trade have fallen in consequence of the superabundance of capital which cannot find vent in loans to government, as it did during the war. More is, in consequence, employed in all trades than is wanted; profits are thereby reduced to the lowest ebb, and the cost of commodities in proportion.

It makes no difference to the possessor of income whether the cost of living be enhanced by taxes or profits. The burthen of profits is as heavy to bear as

the burthen of taxes; and a reduction in the one is as good to him as a reduction in the other.

It must, however, be observed, that the reduction of taxation has been, in a great degree, neutralized by the effect of the alteration in the value of money upon the taxes which remain; and, in mentioning the repeal of the taxes, we do it chiefly for the purpose of illustration. Though the taxes were much higher in figures during the war than at present, they were probably not much higher in fact.

If we assume that money has increased 25 per cent. in value, fifty millions, about the present amount of taxation, will purchase as much of labour and commodities as sixty-six, or say, sixty-seven millións, would have done before the alteration took place. The amount of taxes repealed, on the other hand, is about twenty millions; so that taxation is, in fact, not much diminished. Without, therefore, descending to nice calculations, we may set the repeal of the taxes, against the enhanced value of money in which the existing taxes are paid; and, while we consider that the taxes repealed have not diminished, we must also remember that the altered value of money has not increased the cost of living and burthens of the state.

The profits of trade, however, have been diminished one-half at least; and as they form such an important item in the cost of all commodities, it is important to keep in mind how greatly this has added to the cheapness of living, over and above the alteration in the value of money.

In considering how persons have been affected by the alteration in the value of money, and state of things, since the war, we must divide them into classes;

for different classes hve been affected differently; and we will commence with the landlords.

How the Landlords have been affected.—Now, the first point to ascertain is, what difference has the change made in their rents. This is a practical question, better answered by a reference to facts than to theories. We have enquired on the subject, and believe we shall not be wrong in stating, that ten or fifteen per cent. on the average of the kingdom, is the full amount of reduction that has been made, or will be necessary, with prices at the average of 60s. per quarter. The reduction to be in proportion to the change in the value of money, from the average of 80s. to the average of 60s. ought, of course, to be 25 per cent. But a considerable improvement has taken place in agriculture in the last ten or fifteen years; and, from the fall likewise in the rate of profits, the farmer will give a higher rent now, in proportion to the value of money, than he did before.

It must be remembered also, that the interest of money has fallen, in some cases, from five to four, and in others to 4½ per cent. Hence we easily come at a landlord's situation. If he borrowed money at 5 per cent. previous to 1817, has reduced his rents, say 15 per cent., and obtains money now at 4 per cent., which is reducing the amount of interest he has to pay 20 per cent., he is 5 per cent., upon the amount of interest he pays, better off than before. If he has to give 4½ per cent., which reduces the amount of interest he has to pay only 10 per cent., he is 5 per cent. worse off on the amount of interest he has to pay. But as regards the surplus income from his estate, after paying the interest, he is in an infinitely better situation. In the purchase of labour, and the necessaries of life, it will

go 25 per cent. further at least, and in many manufactured commodities, it will go twice as far. Hence, a landlord, though he should have contracted debts previous to 1817, will, with prices at 60s., be in a better situation than he was, even should the interest he pays not be reduced at all.

We must of course presume that his debts do not exceed one-half, or one-third of the value of his estates. There is no meeting the case of those whose estates are mortgaged to their full value, and who have no interest in them but the name. These should not continue to hold them. They are speculators in land without capital, and may be ruined by the turn of a straw.

But very few landlords are in this situation. If the debts and burthens upon their estates amount to one-third or one-half, it is the utmost; and where they do not exceed one-half, we should be disposed to say that the landlord would be in a much better situation now, with prices at 60s., than during the war, notwithstanding the high range of prices of that period.

How the Farmers have been affected.—The next class we have to consider are the farmers or occupiers of land. These, it is generally admitted, could continue to pay their present rents, with prices at the average of 60s. but not under. With 60s. therefore, they would be content. But at that price they will have nothing to spare; and it is important to them, not only that the law should fix that rate for the purpose of regulating importation, but that the price, when fixed, should be secured to them. It may be said, indeed, that it makes no difference to the farmer, what may be the average price. No more it does as a general principle. But it is very important to the farmers, that they should not be compelled to pay a higher rent than they have con-

tracted to pay. Their present contracts have reference to a value of money corresponding to 60s. at least, which they will be obliged to pay as long as they have the power. Even where a farmer takes a farm without a lease, if the landlord will not reduce his rent when a fall in prices occurs, he, four times out of five, stays upon the farm until he is ruined. He generally has a family, is fit for no other occupation, and his capital will not support him without the aid of his industry. To be without a farm is therefore ruin, and to take one that another tenant could not live upon, is no better. Hence there is no alternative but for him to stay where he is, and trust to the mercy of his landlord. This, no doubt, often is, but is not always, a safe dependence. It is not the best farmers who are ruined first; and the landlord is too apt to attribute the farmer's ruin to his bad management, rather than to that change in the value of money by which he has got more than his due, and to be proportionably hard with him.

The landlords, in general, are slow in raising their rents, and slow in reducing them. There are no contracts which ought to be less disturbed than those between landlord and tenant; while to alter them against the tenant is not only injustice, but cruelty. It is also injurious to the nation. By destroying farming capital, it checks cultivation, and prevents improvement; it diminishes the income of the country, reduces the demand for labour in all employments, and injures the revenue. Agriculture is the basis of national wealth, and the means of general comfort. To injure it by ruining the farmer is quite as impolitic, as it is unfair, and severe upon the individual. The tenant, however, can pay his rent at 60s., and so far as the corn laws can do so, it is proposed to secure him that price.

How the Owners of Houses and such Property have been affected.—The third class we shall notice are the owners of houses and property raised by the expenditure of capital. These are in a much worse situation. The alteration in the value of money has diminished the cost of building, and the value of such property on the one hand, while the superabundance of capital has reduced the rate per cent. which it yields on the other. Houses not only cost less building, but people are willing to take less per cent. for their money in the shape of rent after they are built. Those, therefore, who borrowed money upon house property twelve or fifteen years ago will find themselves much worse off from the change of times. If their rents have not yet fallen, they will be certain to do so, while they will probably have to continue to pay 5 per cent. as before. The rate of interest on the security of house property has not fallen as it has on the security of land.

How People in Trade, Annuitants, and People with fixed Salaries, have been affected.—All those who live by the profits of trade are in a much worse situation than before. Their income, upon the aggregate, is reduced one half. Those who have most benefitted by the change, are the fundholders, annuitants, people with fixed salaries, and mortgagees, who obtain the same rate of interest as they did. These can live much better. But these as a class are composed chiefly of people of small incomes, widows, children, unmarried daughters, and people of limited means. The rich who have money in the funds have generally more of other property. The number of great capitalists who have their property chiefly in the funds, is comparatively few. The great mass of funded property is held by the class above-mentioned. The same with annuities pay-

able out of private property, &c. Now, if there is any class we should least grudge benefitting by a change in the value of money, it is this. The monied men in the city, who have no land, are no doubt of this class, but they do not form a drop in the hogshead it is composed of.

From a Review of the Situation of all Parties, 60s., *Winchester Measure, appears to be a fair Average.*— Thus it briefly appears that the change in times has produced the following effect:—

1st. Landlords, who are in debt, have lost by the alteration in the value of money; but they have gained by the fall in interest; they have gained by improvements in cultivation; they have gained by the diminished profits on farming capital, and they have gained in the diminished cost of living; so that all things considered, they will, with prices at 60s., be better off than before; and those who are not in debt will, of course, be infinitely better off.

2nd. The farmers, with prices at 60s., will be worse off upon the whole, but more as capitalists than as farmers. They will obtain less profits, not because prices have been reduced, but because a general reduction has taken place in the profits of capital. If better profits could be obtained in other trades, there would be fewer farmers, not such competition for farms, such high rents would not be given, and more would be made by farming, by those at least who did not take their farms ten or fifteen years ago, but have taken them within the last eight or ten years.

3rd. The owners of houses, and all property raised by the expenditure of capital, previous to 1817, are worse off by the alteration in the value of money, if in debt; if not, it makes no difference to them. But they

are worse off by the fall, in the profits of capital. Their rents, &c. will, in consequence, be diminished.

4th. All tradesmen, and people who live by the profits of capital, expressed in money, are worse off; not, however, by the alteration in the value of money—for, by that, they have been benefitted, but by the fall in the rate of profits.

5th. All annuitants and people of fixed incomes are better off, both from the alteration in the value of money, and from the fall in profits.

We have not noticed the labouring classes, for they can neither be affected by an alteration in the value of money or rate of profits. There is a certain income, which will be expended in a demand for labour, whoever may possess it, and it makes no difference to them in what proportions it may be distributed amongst the classes we have mentioned. If it be not possessed by one class, it will by another; and, whoever has it, must spend it. This is all their concern in the matter, and it is properly taken care of, not by human laws, but by the law of nature.

Thus, the landlords and the annuitants have chiefly benefitted by the change of times, while the other classes have been injured. But that injury has not resulted from the alteration in the value of money so much, as from a reduction in the rate of profits. The change in the value of money indeed must, in a majority of cases, have relieved the injury sustained from the fall in profits, though, in others, it may have aggravated it.

Hence, upon a review of the situation of the different classes, we cannot perceive any reason for wishing to alter the existing average state of prices, which may

be considered to be fairly struck at 60s. Winchester measure.

A higher Price than 60s. Winchester Measure could not, in all probability, be obtained by Corn Laws, if it were desired.—The principal opposition to that price was, however, made by the landlords, though we believe it was only the mode in which they expressed their general hostility to the principle of the bill, from its tendency to promote speculation, as already explained. They only proposed the price to be about 4s. higher, and it cannot be supposed that they contemplated any rise in rents founded upon this trifling difference. Their immediate object, therefore, was rather to protect their tenants than to benefit themselves. There is, however, another argument against fixing the protecting price higher than 60s. more conclusive than any we have yet offered; and that is, that it is not probable that a higher price can be obtained.

We cannot maintain any particular price by corn laws, without we have an extra demand for our manufactures at that level of prices; and by consequence, without we have a balance of payments in our favour, whenever they are beneath that level. In order, therefore, to see whether there is a probability of our maintaining 60s. by corn laws, we must examine how the balance of payments has stood when prices were beneath 60s.—whether it was always at such periods in our favour.

Now, it appears, that in 1824, when our prices rose above 60s., the balance of payments was turned against us to a considerable extent; and, at the present time, the balance of payments is against us, after the scale of prices has been for more than two years under 60s.

It must, however, be considered, that our foreign

trade has lately run all in extremes. We have had either unusually great importations, or importations unusually small; we have had a great foreign demand for our manufactures, or a trifling demand. The markets, both at home and abroad, have been alternately starved and glutted. This state of things has been produced by the shocks which have been given to consumption and demand, by our currency; for, while our currency is, or ought to be, regulated by our foreign trade, it must also be kept in mind, that our foreign trade is regulated by our currency. The consequence has been, that we have sometimes had the balance ten or twelve millions in our favour, sometimes that amount against us, and continuing either the one way or the other for years together. We have only to reflect, that our foreign trade, in a natural state, consists in an exchange of commodities, without the balance of payments being either for or against us, to see at once how unnatural a state our trade for sometime must have been in.

In order to ascertain whether the balance of payments has upon the whole been for or against us, it is necessary in consequence of our trade running in these extremes, to take in an average of years; and if we go back for ten years, we shall find that the balance of payments has been in our favour to a very great extent, while 60s. 6d. has been the average price of that period.

Now, had the balance of payments not been so much in our favour, the evidence would have been conclusive that we could have maintained 60s. But unfortunately the extent to which the balance has been in our favour, has rendered it improbable that we can count upon the same demand for our manufactures again. It must have lowered the prices on the continent, and in the

countries dealing with us, and diminished their power of purchasing them. It has impoverished them by reducing their scale of prices, though it has failed to increase ours. The manufactures of other countries, at the same time have also been improving. This, coupled with the comparatively low state of prices which our draining the continent of its metallic currency has caused, has enabled the continental manufacturers to compete with us. If we cannot, however, notwithstanding this, manufacture cheaper than they can, we cannot have a demand for our manufactures that will keep the level of our prices at 60s. in spite of any corn laws that we may think proper to enact.

Hence, we should be disposed to say that the balance of payments being against us at the present moment, is, to say the least of it, a suspicious circumstance; and, though we should not altogether despair of being able to maintain our prices at 60s., yet it seems very improbable that we should be able to maintain a higher level, supposing it to be proper to fix our prices higher if we could.

Thus, there are three reasons in favor of 60s., Winchester measure, being the import price:—

1st. It is the average of the last ten years, and therefore may be taken as the existing average to which all things have become accommodated, and which could not be disturbed without doing as much injustice as it remedied.

2nd. It is a price, which upon reviewing the state of the different classes of society, and the change that has occurred since the war, no one class has any right to complain of.

3rd. Were we to set aside all considerations of justice and expediency, and be desirous to raise the price

as high as possible, it is the highest price there is any reason to think could be maintained.

And we may add, as a fourth reason, that it is the price that the great majority of all classes will be satisfied with.

Having thus endeavoured to show that the price proposed to be secured by the bill is a proper one, we shall proceed to consider the provisions for securing it.

No fixed Price could be secured by Prohibition.— Now, it is obvious, that as it is necessary to fix a particular price in order to adjust the contracts of society, this could not be done by prohibition. With prohibition our prices would rise as high as our manufacturing superiority would carry them; but how far that would be, we have no means of judging; and there is certainly no particular reason to think it would be 62s. imperial measure* more than any other price, at least between 52s. and 72s. Neither would the price remain steady, it would probably rise to its highest point, and then afterwards gradually decline as the manufacturing skill of our neighbours improved. Or it might fluctuate. It might rise as any new improvements in machinery gave us the advantage, and then fall again as soon as these improvements were obtained by our neighbours, and the comparative advantage was lost.

* The different measure may confuse. But in speaking of past prices, we are obliged to speak of Winchester measure, as all past prices are in that measure; whereas, in calculations with regard to present prices, we must refer to imperial measure, as we have given the table in that measure. It would be well if the next committee on the subjects of either corn or currency, would order a new set of tables to be calculated in Imperial measure; and let the yearly averages be computed from October to September inclusive. At present the effects upon prices of any particular harvest cannot be known with precision, as the yearly averages comprehend two harvests. They refer to it nine months of the one and three of the other.

Nor yet could a fixed Price be secured by a fixed Duty.—Neither, on the one hand, could we, with any precision, fix a price, by admitting foreign corn at a particular duty: for we neither know the demand we shall have, nor the supply we shall obtain, at any particular price. Corn can be grown, as we have already shewn, at any price. The quantity we can obtain of any nation, at a particular price, does not depend upon the cost of producing it, but upon the opposite demand which such nation has for foreign commodities.

There is indeed a price, below which we could obtain no supplies from any nation that had a trade in other commodities. This price, for instance, with Poland, would correspond with the level at which its exports of hemp, timber, &c. would pay for its imports. At a particular scale of prices, its monied income would be sufficiently low to keep down its demand for foreign commodities to a level with the value of its exports in hemp, timber, &c.; and below this, its prices would not fall. What this level is, it is impossible to say; but the probability is, that it is under 20s. per quarter.

By an account of the prices of wheat, at different foreign ports, in 1826, when a demand for exportation was anticipated, given in the Appendix to the Lords' Report of last session (1827) on the prices of foreign corn, the prices, imperial measure, were as follows:—

	s.	*d.*	
Memel -	20	2	Imperial measure.
Koningsburg	19	8	
Dantzic -	21	6	

Upon this, the calculation of freight and charges to

this country is from 10s. to 12s. per quarter, which we believe, however, is much above the truth.

Corn has been imported and sold in this country, it is said, at 24s. per quarter, Winchester measure; in which case, the point of total prohibition, inclusive of freight and charges, is probably not above 22s. imperial measure.

Now, suppose the foreign demand for our manufactures would not raise our prices above 62s. imperial measure, we should, of course, have no demand for corn at that price. Hence, a duty which would admit corn when above, and prohibit it when beneath, that price, must be 40s. a quarter. If, in such case, we imposed a duty of only 30s. we should not keep our prices at 62s. They would fall sufficiently to produce an extra demand for our manufactures, and our demand for corn would rise sufficiently to produce a corresponding supply. The ten shillings would be divided between our prices and the prices in Poland. Our prices would be reduced, say 5s. below 62s., and theirs increased in the same proportion.

On the other hand, if we were to impose a fixed duty, on the supposition of a very limited demand for foreign corn, and should have a very extensive extra demand for our manufactures, in that case, we should have our scale of prices elevated above its proper level. We might have it probably at 72s. instead of 62s.

The Bill under present Circumstances founded on right Principles.—In the state of uncertainty we are in with regard to both demand and supply, it is thus evident, that no fixed duty could be named which would keep the level of our prices at 62s. Any duty, or scale of duties, which would have that effect, must necessarily be contingent. They must be high, if we have no demand for

corn at 62s., moderate, should we have a moderate demand, and low, should we have an excessive demand at at that price.

Now, this is the principle of the proposed bill; and if ministers are right in their anticipation of a demand for foreign corn at 62s. the bill will have the effect of keeping prices at that level.

There are three views, however, under which the bill may be examined: namely, under the supposition of an extra demand for our manufactures, which will have a tendency to raise prices above 62s., of a moderate extra demand at 62s., and of no extra demand at 62s.; and these we will consider separately.

The Bill will prevent Corn rising in the Event of a great Demand.—Supposing we had such an extra demand for our manufactures, as would raise the price of corn, notwithstanding the average supply, to 67s. or 72s., and by consequence to reduce the duty to 10s. or to nothing; so that instead of giving the Poles and other nations we dealt with, 30s. or 40s. for their corn, we were to give them 62s. or 72s. we have seen that the almost certain consequence of this would be, not to obtain an increased but a diminished average supply. The supply, however, would be at first considerably enlarged, and for this money would be paid: for it is by payments in money, in the first place, that the average supply comes eventually to be diminished.

Nor would the immediate supply be obtained from those countries only, from whom we were in the habit of importing corn regularly. If our prices were to rise sufficiently high, we might obtain a supply from France and other countries, although we should not import a bushel from them at any other time, or for payment in any thing but money. Two neighbouring

nations who may naturally have no trade in corn, will, for the mere purpose of bringing their respective scales of prices to the level at which the trade must of itself terminate, import and export corn when any inequality in their respective prices shall arise. If we imported nothing from France besides, and the French took nothing but money in return, we should import corn from them the moment their prices and ours would permit it to be done with profit. Hence we should have a temporary supply from other countries for payment in money, whenever corn (our prices being much above the level of Europe) was admitted at a low duty, or duty free, although our average supplies might be received from the north of Europe alone.

The effect of this would be, not to extend our trade, but to check it, and keep down our prices at their proper level. The money received in demand for our manufactures would diminish the monied incomes of the consumers in the countries it came from, and with it their power of consuming them; while, on the other hand, the money exported in payment for the corn, would reduce the price of it with us. The extra demand for manufactures would be checked on the one hand, while our demand for corn would be checked on the other, and we should finally have no greater extra demand for our manufactures than we could obtain corn at, or about 62s. to enable us to supply. Thus our prices would be kept at, or near, the proper level; a consideration paramount to every other.

The Bill will practically shut the Ports when Corn is below 60s. Imperial Measure, in the Event of a moderate Demand.—Let us next suppose that we had only a moderate extra demand for our manufactures—a demand which would have no tendency to exceed the

supply of foreign corn we could obtain at the average of 62s. In this case the prices would sometimes be a little above, and sometimes beneath that price. This is inferred by the term average price. It is not the highest, nor yet the lowest, but the medium price. Having, therefore, assumed the price to average 62s. with an importation of corn, we have on that point, nothing more to say. But let us examine to what extent the fluctuations in price would take place so far as they would be governed by the bill.

We have shewn, in the first section, page 14, that the prospect of a rise of 20s. on the average of 5 years, would be sufficient to induce speculators to hold corn in bond for that time. This, a rise of 7s., under the proposed bill, would secure. Now, if there were only a moderate demand for corn at 62s., the extra demand for our manufactures, upon which it would be founded, must be sufficient to raise our prices at least 3s. or 4s. above 62s., were importations suspended. This would come to be known by experience, and whenever the average price fell to 59s., making a difference of 21s. to the importer between it and 66s., the foreign corn would not be brought into market: the speculators both at home and abroad would hold; and practically, at least, our ports would be shut, as it is technically termed. The importer, if he entered his corn for consumption at 59s., would get 33s. for it; if he kept it until prices were at 66s., he would get 54s. No one can for a moment suppose, that with the remotest chance of getting the latter price, he would sell at the former. Hence, prohibition would take place at 59s., if not at a higher price. The probability, indeed, is, that if there were an average demand for any quantity of foreign corn, at 62s., very little would, at any time, be entered for con-

sumption under that price. The prospect of a rise of 2s. or 3s. per quarter in the price, or from 6s. to 9s. to the importer, would be sufficient to induce him to hold sufficiently long to obtain that rise.

At all events, we may assume that when the price fell below 60s., imperial measure, the ports would be practically shut; and that the fluctuations, so far as they depended upon the importation of foreign corn, could not exceed 6s. or 7s. per quarter.

The Bill will not prevent Corn falling below 60*s., Imperial Measure, in the Event of a limited Demand, and for which a Remedy suggested.*—The third supposition is, that we have no extra demand for our manufactures at 60s. Winchester, or 62s. Imperial Measure. Now, it is probable that total prohibition would take place at about 55s. or 56s.; that is to say, if more than 22s. or 25s., Imperial Measure, could not be obtained in this country, corn would not be imported. But it is not improbable that corn might be imported at 57s. or 58s. Imperial, sufficient to keep our prices down at that level, although, with total prohibition, prices might be raised to the level of 62s.; 58s. would leave 30s. to the importer, and there can be little doubt that a regular supply might be had at that price.

Hence, the bill will be more effectual in keeping prices down to 62s. in the event of an excessive demand, than in keeping them up at 62s. in the event of there being no demand, or only a very limited demand for foreign corn at that price; and in so far it will not fully accomplish the object it proposes. The bill is founded upon the assumption of a demand for foreign corn at 62s. imperial measure. In which case, the ports would practically close when prices were more than 2s. beneath that level; and, in order to make the bill, under

all circumstances, precisely what it is intended it should be, it will be necessary to introduce a clause to the effect, that the ports shall be shut by law, when prices fall below 60s. imperial measure.

This is the more necessary, when we consider that we shall probably have a trade in corn at whatever price we chuse to receive it. We have all along reasoned upon the supposition, that our supply of corn would be preceded by an extra demand for our manufactures. Whereas the probability is, that the supply of corn will precede and give rise to the extra demand for our manufactures; and in this case, it will probably not come at one shilling higher than the lowest price at which we shall chuse to receive it. We shall say, for instance, that it is imported, and sold at 58s., imperial measure, which would leave 30s. to the importer, a price which, in 1826, we have little doubt would have paid him very well; that a quantity equal in value of foreign commodities be taken in return; and that this gives rise to a corresponding demand for our manufactures. Now, we may easily see, that the trade in this way, may increase to a great extent at any given price, without reducing that price; but it can never raise it, inasmuch as the demand for our manufactures will take place at the price at which the corn sells.

It must also be kept in mind, that the greater the demand the Poles have for foreign commodities, the cheaper their corn will be. If they were to send us this year a million of corn, and have a demand for a million and a half of colonial produce, &c. the balance of payments would be against them half a million. This sum they would have to pay in money, and against next year their prices would be lower. As there is a growing taste for foreign luxuries and comforts in the north

of Europe, it may therefore be expected, that their prices will have a tendency to fall, unless met by a corresponding foreign demand for our manufactures, and consequently increased demand for corn on our part.

As it seems, therefore, within the bounds, at least, of possibility, that the bill, as it now stands, may not be effectual under every supposition, in keeping prices at or near sixty-two, Imperial measure, it seems proper to amend it in that respect.

The foregoing observations with regard to the operation and effect of the bill on the price of corn, presume that our trade is nicely balanced, and our currency rightly governed, neither of which is the case. Our prices ought to be regulated by our foreign trade, but they seldom are; and with our present system of banking and currency, will be subject to great fluctuations in spite of any corn laws that can be framed.

Nor would it be proper to consider this or any other bill perfect. We cannot pass a corn law at present that will not be subject to revisal as our knowledge and experience increase. All that can be said of it is, that it appears the best which, in the present situation of circumstances, has been devised.

SECTION IX.

On our Systems of Banking and Currency.

The Corn Bill can only affect Prices, in as far as by Means of the Balance of Payments it affects the Issues of the Country Banks.—With every nation, but particularly with a great commercial nation like this, where the transactions of society expressed in money are so numerous and complicated, an unchangeable value of money and steady prices, are, as we have before mentioned, more important than any other consideration.

So far as the corn bill goes, it will have the effect of producing steady prices; but we have stated that our prices will fluctuate in spite of the corn bill; and it will be proper to make a few observations on those causes, by which it will thus, to a certain extent, at least, be rendered of no effect.

The corn bill can only regulate the price of corn, by regulating the quantity and value of the money in circulation,—by keeping out corn, until there is a sufficient quantity of money in the country to raise prices to the level required; and when they are too high, by letting it in, in sufficient quantities to take off the surplus currency, and reduce prices to their proper level again. But the circulation by which the price of corn is regulated with us, as we explained in section 2nd, consists of the notes of the country bankers. The corn bill, therefore, can only regulate prices, in as far as the money which comes into or goes out of the country, produces a corresponding enlargement and contraction of their issues. Should their issues enlarge and con-

tract, independent of, and unconnected with, the balance of payments, to the extent that this independent action takes place, the corn bill can have no effect whatever in preventing our prices from fluctuating.

The proper Amount of Paper in Circulation is such an Amount as will preserve Prices at the level at which our Foreign Trade will balance.—It, indeed, has always been assumed that the banks correctly supply the country with the proper amount of currency. If this were the case, the amount of their notes current would, at all times, be equal to the sum of metallic money which would be in circulation, were there no bank notes. A nation within itself has no occasion for one particular quantity of money more than another. It is of no importance to it whether corn be a penny, or a pound a bushel, whether gold be the value of copper, or copper the value of gold. The relative value of all things would be as well preserved at one scale of prices as at another. It is only with reference to the adjustment of its foreign trade that a particular quantity of money in circulation and scale of prices, can be requisite. This quantity must be sufficient to keep prices at the level at which its foreign trade will balance in commodities. Had we no bank notes, this quantity would, of course, be the sum of metallic money current; and if our banks correctly supply the country with the currency proper for it, the sum in circulation will always be equal to this quantity.

The Balance of Payments the Rule by which to know whether our Circulation be deficient, or redundant.—Now, with a metallic currency, were the prices too high, the balance of payments would be against us, and they would fall in consequence; were prices too low, the balance would be in our favor, and they would, in con-

sequence, rise. It would only be by means of the balance of payments that we could know whether the currency was redundant, or deficient; and if our paper currency is as perfect as has been supposed, it will, of course, follow, that with a balance of payments in our favor, it will enlarge, and our prices rise; that with a balance against us, it will contract, and our prices fall; and that when the balance is neither for nor against us, the amount in circulation will be stationary and prices steady. This is an infallible test by which to know whether the banks supply the country at all times with a proper amount of money or not; and by which also, we shall know, whether the corn bill would have the effect expected from it in keeping prices steady.

The Balance of Payments since the War, proves that the Amount of our Currency is not regulated by our Foreign Trade.—Let us, therefore, examine how far our currency is perfect, or imperfect, according to this test, commencing with the end of the war, when our trade was thrown open to the world at large.

The following gives the annual demand for stamps by the country bankers, and average prices of wheat, from year 1813:—

1813,	£12,615,509	Wheat 106s.
1814,	10,773,375	72s.
1815,	7,624,949	63s.
1816,	6,423,466	76s.
1817,	9,075,958	94s.
1818,	12,316,868	83s.
1819,	5,640,313	72s.
1820,	3,574,894	65s.
1821,	3,987,582	54s.
1822,	4,217,341	43s
1823,	4,657,589	51s

1824,	£6,093,367	Wheat	62s.
1825,	8,532,438		66s.

In 1826, the further issue of stamps for one pound notes to the country bankers was suspended. This, together with the effects of the panic, in substituting bank of England paper and gold for their notes, has destroyed, in some measure, the value of the late returns, as means of ascertaining correctly, the progress of their issues. But there can be no doubt, that the circulation generally, has been materially reduced.

Now, by this table it appears, that our currency began to contract and prices to fall in 1814. The fall, indeed, which occurred, was out of proportion with the amount of reduction in the circulation; but there would have been a fall without any contraction of the currency, from the sudden enlargement of our commercial transactions, which would render it impossible for the same amount of money to keep up the same scale of prices. The question, however, at present is, not what fall any contraction in the currency did produce, but whether the contractions or extensions which did take place, were produced by our foreign trade or not.

Now, had this contraction been produced by our foreign trade, it must have been the result of a balance of payments against us—of a quantity of money actually sent out of the country, and this did not and could not at that time have occurred. The banks were not then compelled to pay their notes in gold, and there was no gold whatever in circulation, and none to be obtained for the purpose of sending out of the country. The contraction was consequently produced by some cause quite unconnected with our foreign trade.

Besides this, the contraction appears to have gone on until 1816. By the report on cash payments, however,

in 1819, we are informed that the balance of payments became favourable, and money began to flow into the country in July, 1815. From and after this time consequently prices would have risen, had the previous fall been at all produced by our foreign trade.

By the same report, it appears that the balance turned against us in October, 1817, and continued against us until the commencement of 1819. Notwithstanding which, it appears that in 1818, the issues of the banks materially increased.

In 1819 the balance turned again in our favour, and continued so until 1824, in which time it is understood that we received in gold and silver between twenty and thirty millions, an amount almost incredible; yet our currency continued to contract the principal part of that time to an extent never before known.

In 1824, however, the balance turned against us, and continued against us to a great extent until the latter end of 1825. Notwithstanding this, our currency in both these years was very much enlarged.

After that the balance became favourable, and has continued so until lately, although it is evident that our currency must have contracted.

We thus have the clearest possible evidence, that our paper currency does not faithfully represent a metallic currency; that it is increased and diminished by the influence of causes that would not effect such a currency; that it increases when a metallic currency would decrease, and decreases when a metallic currency would increase; and that it is not regulated by, or with reference to our foreign trade: the only means of determining the amount of money which a nation requires, when no particular scale of prices is fixed upon.

The Balance of Payments since the War, the Effect as well as Proof of Derangements in the Currency.—Indeed, it is pretty evident that these balances of payments were not the cause, but the effect of the fluctuations in the currency. Our foreign trade will balance at only a particular level of prices; and, when they fall below that level, the natural effect is to produce a balance of payments in our favour; when they rise above it, to produce a balance against us. When the balance of payments therefore became favourable, in 1815, it was a proof that the previous contraction of the currency had been too great. On the other hand, in 1818, the balance against us was a proof that our prices were too high, whether resulting from the enlargement of the circulation, or from throwing open our ports to the admission of foreign corn, duty free; and the immense sums of money we received during the great fall in prices which followed, proved that fall, beyond all question, to have been most unnatural and improper; and so with every succeeding balance for and against us that we have since had.

A balance of payments in our favour, naturally and legitimately arising, would always precede and produce a rise in prices; and, a balance against us, would always be succeeded by a fall. When this is not the case—when a balance of payments in our favour is preceded and followed by a fall in prices, it is as clear a proof of derangement in the currency as can be given. When, likewise, a balance of payments against us is preceded and followed by a rise in price, the proof of derangement in the currency is equally conclusive.

The Balance of Payments, but for the Influence of other Causes, would have a greater Effect upon our Paper

than upon a Metallic Currency.—We do not, however, mean to infer, that a balance of payments has no effect upon our currency. It would have a greater effect upon it than upon a metallic currency, were it not for the superior and over-ruling effect of other causes.

Money, which comes into the country, is imported in payment for our manufactures exported, the basis of which consists in agricultural produce, represented by labour and the profits of capital. Hence, the money is due to, and is received by the nation at large. But gold has hitherto, with the exception of one county, not circulated out of London; and is either imported direct into London, or is sent thither after being received in other parts of the kingdom. The person, however, to whom the money is ultimately due in the country, does not want the money in London—he wants it in the country. If, therefore, it be imported into London on his account, he draws upon his correspondent in London to whom it is consigned, for the amount of it. This bill he discounts with the country banker, who gives him his notes for it. These notes are, to him, the same as the gold would be; while the country circulation, in as far as not counteracted by other causes, is as much increased as if the gold had itself been circulated in the country. The correspondent in London, on the other hand, to whom the gold would be consigned, would pay the bill drawn upon him for the amount of it, with the gold itself, or the proceeds of it. He would either send it to the mint, and have it coined, or he would sell it to the bank of England for its notes, and with these would pay the bill to the agent of the country banker. If the gold, instead of being imported into London on behalf of the person in the country, was received in the country direct, it would

be placed in the hands of the country banker, who would, when the money was wanted, give his notes for it; and, by him, it would be sent up to London. This would amount to the same thing as if it had been sent to London in the first instance. In either case the country banker would obtain the possession and use of the gold in London, for which he would give his notes in the country.

Should the gold be received by a London merchant, the goods must come from the country which it pays for; or if by a London manufacturer, the necessaries of life and articles of consumption in which the wages of labour, &c. consist, must be received from the country, and in both cases, bills upon London must be drawn for them, which would be discounted with the country banker, and be paid with the gold or the proceeds of it. So that by whomsoever gold is received, it finally comes into the possession of the agent in London of the country banker on the country banker's account, and gives rise to a corresponding issue of country bank notes, as well as to an increase in the circulation of London.

The reverse of this occurs when the balance is against us. The money is due to foreign nations by the country at large. Bills upon London are obtained in the country of the country banker by those who have to remit money abroad. With these bills, gold, by the agency of Mr Rothschild and others, is obtained from the bank of England and sent abroad; and the country bank circulation and that of the bank of England, if not counteracted by other causes, are both contracted to the extent of the sum exported.

A metallic currency would only be increased, or diminished, in the amount of the sum exported, or imported. Whereas, ours is evidently increased, or

diminished in double the sum. A balance of payments either for or against us ought, therefore, to have double the effect in raising or depressing our prices, whereas, we can hardly perceive that it has any effect at all. This must, of course, arise from the superior and more potent influence of those other causes by which our currency is affected.

The Principles upon which the Banks issue their Notes.—We have thus shewn that the circulation of the country banks is not governed by the foreign trade of the country, and that, consequently, their notes cannot be issued upon right principles. We will now, therefore, proceed to examine the principles upon which they are issued.

THE BANK OF ENGLAND.—The issues of the bank of England, and the country banks, are made upon the same general principles; and it will assist us in understanding the latter, to examine the former in the first instance.

The Demand for the Notes of the Bank, of two Kinds, external and internal.—There are two classes or modes of demand for money experienced by the bank of England. It issues its notes, either in the purchase of gold, or in loans to government and the public, and it contracts its issues, either by supplying a demand for gold, or by withdrawing its loans from government or the public. These are the only two ways in which it can issue them. It must either buy gold with them, or lend them at interest.

Its issues can only be increased or diminished upon gold, when our foreign trade brings it into, or takes it out of the country. Its issues upon gold must, therefore, be regulated by external causes, which, for bre-

vity of expression, may be termed the *external* demand for money.

Its loans to government, and the public, on the other hand, are the result of the demand which they have for interest money, or the savings of income, at the rate of interest which the bank charges, or is willing to lend at. This is altogether an internal demand for money. It is neither affected by, nor has it reference to, our foreign trade and payments. It depends upon the amount of income saved, compared with the demand for such savings, either in trade, or by government, and persons, who occasionally spend more than their income. Hence, it may be termed the *internal*, in contra-distinction to the *external* demand for money.

Money lent at Interest always the Savings of Income.—The notes of the bank thus issued always represent the savings of income, or answer the same purpose. If the issues of the bank are not increased by any loan it makes at interest, an equal amount of money must have been previously saved out of income, and paid into the bank, in which case, the party borrows the income previously saved; but if not, and the issues of the bank are increased by the loan, prices rise, and the party who has borrowed the money obtains value for it by depriving the holders of the money in previous circulation, of a proportionate power of purchasing commodities. An economy is thus created, though a forced economy, but it answers all the purpose of a voluntary one. It makes no difference to the party borrowing the money, whether the value he obtains for it, be previously and voluntarily saved, or saved by the power of consumption on the part of those who held the money in previous circulation, being limited. Hence, when the bank lends money at interest, it always lends the

savings of income; it lends savings which either have been, or will be made. On the other hand, if money be saved and paid into the bank, and be not lent out again, it is cancelled, the savings are done away, prices fall, and a power of consumption adequate to the money cancelled, is acquired by those who possess the money left in circulation.

The Bank cannot issue to Excess in supplying the external Demand for its Notes.—The external demand for money being a mere exchange of gold for notes, the bank cannot issue to excess in supplying it. Money comes into the country only when the circulation is deficient, and leaves it when it is redundant, and when the bank purchases gold with its notes, it substitutes them for money which would be coined at the mint and put into circulation, if not purchased by it. And when, on the other hand, it contracts its issues in supplying a demand for gold, it only reduces the circulation to the extent that it would otherwise be reduced did the bank not supply the demand. Gold is obtained at the bank, only because it is more convenient than to take it out of circulation. Therefore, in issuing its notes upon gold imported, and in contracting them in supplying a demand for exportation, it cannot be wrong.

The Bank can only issue to Excess in supplying the internal Demand for Money.—Hence, it is only in supplying the internal demand for money, that an excess of issues can be made. This demand, however, is unlimited. If the bank, for instance, were to charge only one per cent., it might issue as many notes as it thought proper. There would be hardly any limits to the demand for money at so low a rate of interest. On the other hand, it can withdraw its advances at pleasure,—it can take all its notes out of circulation which are lent

at interest, when it pleases to compel their re-payment, and thus reduce the circulation to nothing, in as far as it depends upon the internal demand for money. Thus the issues of the bank in supplying the internal demand for money are altogether arbitrary, and can either be raised above their right level or be reduced beneath it at any time.

The Policy of the Bank Directors in regulating its Issues.—The difficulty, however, is to ascertain this right level. The plan of the Directors, we infer, is to keep its issues or loans at interest, at, or nearly at a fixed amount, and allow whatever fluctuations occur in the amount of its notes current, to arise from the supply or demand for gold.

In dealing with the public, it charges a fixed rate of interest—either 4 or 5 per cent. But it cannot always keep its issues steady at either of these rates; and when there is not a sufficient demand for money upon commercial bills, it is obliged to take less. This it does, not by lowering its rate of interest to its commercial customers, but by purchasing exchequer bills in the market, which generally yield fully one per cent. less than commercial bills, or by advancing money upon them to government. When the demand for money, at interest, exceeds the amount the bank is disposed to lend, it can easily keep its issues down at the right level by declining to lend more than this amount. But when the demand falls off, the only way in which the bank is thus able to keep its issues at the proper level, is by reducing the rate of interest it charges.

The Effect of a Balance of Payments on the Money Market of London.—Any enlargement or contraction of issues by the bank, however, though it be in consequence of a supply or demand for gold, and, there-

fore, an enlargement and contraction, which would take place in the amount of the circulation of London, whether the bank purchased and sold the gold or not, is apt to produce a great sensation, and to call down upon the heads of the directors no small degree of blame, of which they are not in the least degree deserving.

This arises from the effect which the importation of gold has upon the money market of London. Not probably more than one-tenth of the gold imported ought to remain in London; that portion only ought to remain which the consumptive circulation of London bears to the rest of the kingdom. The remainder ought to be sent into the country to pay for the commodities which were exported in purchase of it. But, the country bankers, by substituting their notes for it, obtain the power of circulating it in London. This they do by purchasing stock with it, or by lending it at interest; and the effect is just the same as if, without a balance of payments in our favour, the bank of England had increased its issues by doing the same thing. When, therefore, the balance of payments is in our own favour, interest money becomes very plentiful in London, the bankers can only obtain a low rate for it, and the funds rise. A capital is created, for which there is no particular demand; and the money can only be kept in circulation by the low rate at which the bankers are willing to lend it upon any safe description of securities which can be had. On the other hand, when the balance of payments turns against us, and the money is required for exportation, the bankers are obliged to sell the stock they had before purchased, and draw in the loans they had made. The capital, which had been before created, comes now to

be cancelled—the interest of money rises—the price of stocks falls, and a considerable degree of pecuniary embarrassment is felt. The persons who had been induced by the previously low rate of interest to borrow money, and of course to employ it in some way, find themselves unable to repay it. The bankers, on the other hand, cannot do without it, and are, in consequence, put to much inconvenience. So that, when a considerable balance of payment against us succeeds a considerable balance in our favour, a great deal of commercial embarrassment is always felt in London, which isu nknown in other parts of the kingdom.

On these occasions the bank directors are sure to be blamed, as they must necessarily have increased and diminished their issues on gold. Whereas, the whole is the consequence of a defect in our system of currency, for which they are not accountable, and with which, as bankers, they are not obliged to trouble themselves. When gold comes into the country the circulation is deficient, and ought to be increased; when it goes out, it is redundant, and ought to be diminished. The effect upon the value of the currency produced is a proper one. But if, in addition to this, a great and improper alteration takes place in the value of interest money, or savings of income in London, and commercial embarrassment is the consequence, it is a subject for the consideration of the legislature, and not of the directors of the bank.

The private Bankers of London deal in Interest Money only.—The bank of England being the only bank which issues notes in London, the private bankers deal in interest money, or the savings of income, only. What money, therefore, is placed in their hands, they lend out again. They have no power of creating or

cancelling the savings of income, by an enlargement or contraction of issues. They can only lend what money has been previously lent to them. Neither can they fix a particular rate of interest. London is peculiarly, as we have pointed out, liable to the fluctuations in the supply of interest money. The demand, however, varies as well as the supply, and they lend what they have to lend, on the best terms they can obtain. These have occasionally varied within the year, from two to five per cent. on the best securities. But the amount of money in circulation is not in the least affected by their operations. They make their profits by lending it, and not by keeping it in hand. Hence, they are certain to keep it in circulation, at one rate of interest or another.

The Rate of Interest cannot be arbitrarily fixed.— Great and sudden variations in the rate of interest in such a country as this, are probably not natural, and those which occur in London, are no doubt to be attributed to the causes we have just pointed out as peculiar to the money market of London. But assuming the average rate of interest to be ever so steady, it cannot be arbitrarily fixed. Whether it ought to be three, four, or five per cent. can only be determined by the proportion which the supply of the savings of income bears to the demand in the market. It can no more be fixed at any particular rate than the price of sugar, coffee, or any other commodity.

This, the bank of England has discovered: for, though it fixes a particular rate in dealing with the public, it can never, as we have before mentioned, keep its advances steady at that rate; and is frequently obliged to take less, by purchasing exchequer bills or

otherwise. It is important, however, that it should keep its issues steady in supplying the internal demand for money, in whatever way, or at whatever interest its loans are made; and this it no doubt generally endeavours to do.

The Issues of the Bank would fluctuate were they governed by the Demand for Money at any given Rate of Interest.—But it may easily be perceived, that if the bank were to regulate its issues by no other rate than the demand it had for money at four per cent. or any particular rate of interest, that its issues would always be above or below what they ought to be. Sometimes, interest money in London, is not to be had at five per cent., and the public could take most readily a few millions of additional capital at that rate. At other times, the bank has hardly any demand for money whatever at four per cent. Nor could these fluctuations have any reference whatever to the balance of payments. They would be governed by the state of the economy of the nation, compared with its expenditure; and men neither save money nor spend it with reference to the balance of payments.

One effect, no doubt, would be produced by the bank regulating its issues by the demand for money at a particular rate of interest, namely, that the rate of interest would be kept steady. Instead of the savings of income rising above four per cent., the enlargement of issues would create an additional quantity sufficient to supply, at four per cent., the increased demand. On the other hand, when the savings of income were not in such reqnest, and the demand at four per cent. fell off, the notes of the bank would be withdrawn, and the supply of such savings, to a corresponding extent, would be cancelled, by which the rate of interest would

be kept up. The alteration in the demand for capital would not affect its value. The supply of it by means of the enlargement and contraction of the currency, would be created and cancelled as it was required. Prices would fluctuate instead of the interest of money.

The Monopoly of the Bank of England cannot be done away until our System of Currency be otherwise improved.—This would, of course, be a very improper effect, which the bank, in consequence of being the only establishment in London that issues notes, is enabled to prevent. Were its monopoly done away before the adoption of a better system of currency, and the circulation of London thrown open to the competition of rival establishments, they could not regulate their issues by any other rate than the supply and demand for money at some fixed rate of interest. They would know nothing of each others operations; and each bank would lend as much money as it could. They might be so far a check upon each other, as to prevent one bank exceeding its proportion with the rest. But the increase and decrease of demand for money would be felt by all the banks at the same time, in proportion to the business they did, and the share of the circulation they possessed. They, therefore, would all increase or decrease their issues together.

Hence, it is clear, that throwing the circulation of London open to competition, as has been proposed, would be injudicious. The system is bad enough as it is, but that would make it infinitely worse.

Having thus explained the principles upon which the issues of the Bank of England are made, we shall next proceed to consider the issues of the country banks.

THE COUNTRY BANKS. *The external Demand for*

Money experienced in a Supply and Demand for Bills upon London.—The issues of the country banker, like those of the Bank of England, are founded upon an external and internal demand for money. He is obliged to pay his notes in gold as well as the Bank of England. But so long as his credit remains good, he is never called upon to do so in the country. All, or nearly all, gold is exported from London, and when gold is wanted of him for exportation in exchange for his notes, instead of paying them in gold he pays them by a bill upon London.

Nor is it necessary for him to keep a dead stock of gold in London to pay these bills with. If he have government stock or other securities in London, which he can convert into money without loss, it answers his purpose quite as well. If he can only meet the payment of his bills, it makes no difference in what manner. The party to whom he gives them can obtain gold from the Bank of England at any time.

When, therefore, he obtains gold, and sends it up to London, or obtains a bill upon London (which is the same thing to the country banker as obtaining gold) and sends it to his agent, he orders him to purchase stock with the proceeds, or otherwise lend the money for him on such securities, as will afford him the best interest which can be had, consistent with their being reconvertible into money, without loss, at a short notice.

A banker's funds in London are to him consequently, what gold is to the bank of England. It cannot increase its issues too much upon gold, nor does he consider that he can do so in discounting bills upon London. It cannot diminish its issues too much in supplying a demand for gold, nor he, as he supposes, in supplying a demand for bills upon London.

A Banker, as regards his own Security, cannot issue to Excess in Discounting Bills upon London.—It must be obvious indeed, that, as a banker, he is quite safe in making advances upon good bills upon London. So long as he can keep his funds in London available, that is, so long as he can at any time obtain money in London upon these bills, or upon any stock, or other securities he may purchase with the money obtained for them, he has the means ready to re-pay the notes issued upon them. If, therefore, he should fall into discredit, and the public should bring in the notes for payment; or, if a demand should arise for bills upon London, provided he have previously issued them in discounting bills upon London, he has nothing to fear.

Thus, a banker may advance his notes upon bills upon London, with the same facility and safety against the consequences, as the bank of England can do in the purchase of gold.

The Supply and Demand for Bills upon London, may result from the internal, and the local, as well as from the general Balance of Payments, or external Demand for Money.—But the country banker does not obtain a supply, and experience a demand for London bills, only when the balance of payments is for or against the nation. There are other causes which give rise to such a supply and demand; and of these there are first, the *internal*, and next, the *local* balance of payments.

The first of these, is the balance which arises between different parts of the country. It must be remembered, that there is a balance of payments between counties, as well as between kingdoms. Not only must the currency of the kingdom, and its scale of prices, be at that level, which will bring its trade to a balance in commodities with foreign nations, but the currency and prices

in each county must bear that proportion with the rest, which shall bring its trade with them to such a balance; and, when any inequality takes place, an internal balance of payments must arise, by which to adjust it. With a metallic currency, money would be remitted for that purpose. There would be a rise and fall in the exchanges, or price of bills, between different places, as there is between different kingdoms. But, with us, a banker's bill upon London answers all the purpose. The banker who grants the bill, contracts his issues, and the currency is diminished in that part of the country from which the money is to be remitted, and from which the bill is sent; while, on the other hand, the banker enlarges his issues who discounts the bill, and the currency is enlarged in that part to which the balance of payments is due, and by which the bill is received.

The next is the local balance of payments. This is that which arises between the bankers themselves. The circulation is divided amongst the banks, and the share which each banker has, is determined by the business which he does with the public. A banker cannot enlarge his issues out of his usual proportion with his neighbours, without he increases his general business. Were he to attempt it, the notes would, in the regular course of business, come into their hands, and he must pay them by a bill upon London—the manner in which, of course, the bankers settle with each other.

The Local and Internal Balances of Payments quickly arise.—These balances must also quickly arise. Every man in business, or of property, has an account with a bank, and never keeps any great amount of money in his house or his pocket. The moment he receives any quantity, he puts it into his banker's hands, and the

increased issues of any bank are thus immediately returned into the hands of some bank or other, and the original issuer has to repay them. No banker can increase his issues out of his usual proportion with his neighbours, without he enlarges his trade, and can sustain the increase by obtaining an equal quantity of his neighbour's notes in return; otherwise the moment his notes are issued in excess, he has to repay them by a bill upon London, and take them out of circulation. Thus, the local balance against him, in event of his issues being above his due proportion with his neighbours, is almost instantaneous.

Neither can the internal balance of payments be long in arising, when any inequality in the circulation exists. The country bank notes in consumptive circulation cannot exceed ten millions, while the agricultural produce alone, the consumption of which they promote, must amount to a hundred millions. This is seldom consumed where it is grown. A great portion of it is transported from one part of the country to another; and, a shilling or two per quarter, or a halfpenny a pound upon meat, will turn the stream of supply in any direction. This difference, a very small inequality in the circulation would cause, and a proportionably small excess of supply would correct. The inequalities in the course of the year must be confined to three or four millions on the ten; and, an alteration in the supply, of three or four in the hundred millions, divided and spread throughout the year over the whole kingdom, will be sufficient to adjust it.

There are, however, an immense number of London bills crossing and re-crossing each other. But every London bill does not diminish, nor every one received, increase the circulation. The circulation is only in-

creased, or diminished, if the balance upon the whole be in favor, or against the district. The great mass of receipts and payments balance each other, and they must altogether do so upon the aggregate. When the balance of payments either for, or against a district arises, and an alteration in prices takes place, it is for the very purpose of bringing the internal trade to this balance.

Thus, besides the general balance of payments for, or against the nation, by which a supply and demand for London bills is produced, there is the *internal* balance of payments, or that balance which arises for, or against the town or district, and the *local* balance which arises between the different banks.

From the Internal and Local Balance of Payments no general Increase or Diminution of Issues can take place.—It will be proper, however, to keep in mind, that from the two last mentioned balances of payment, no general increase or diminution of issues can occur. When money is remitted from one part of the country to another, by means of a bill upon London, if the circulation be extended on the one hand, it is contracted on the other; and the same when by the local balance. As the issues of one bank are increased, those of its neighbours are diminished in an equal proportion. The internal and local balances of payments only equalize the circulation, they can neither enlarge nor contract it.

A Supply and Demand for Bills upon London, also generated by the Demand for Interest Money or Income.—A demand and supply of bills upon London, is not, however, confined to the sources above mentioned, they are also produced by the demand for interest money, or the savings of income.

Suppose a person in the country had a thousand pounds in the funds, and wished to build with it, or spend it in any other manner, he would give his banker a power to enable him to sell the stock, and as he wanted the money he would cheque upon him for it. The banker would sell the stock through his agent in London, and employ the money in London on his own account—perhaps purchase the stock himself; and he would pay the cheques of the party on whose account the stock was sold, with his own notes.

Thus his funds in London would be increased a thousand pounds, and so would his issues. In as far, however, as such increase rendered his issues out of proportion with his neighbours, the local balance of payments would be turned against him, which he would have to settle by drawing upon London. To this extent, therefore, his circulation and funds in London would be again decreased. But the circulation of the district, would still be enlarged, and the funds in London of the bankers of the district would also be enlarged a thousand pounds. By this means, however, the circulation of the district would be raised one thousand pounds above its proper level, and an internal balance of payments against it would be created, which would have to be met by drafts upon London. So that finally, though the circulation generally would be enlarged a thousand pounds, and the funds in London of the country bankers would be increased in that amount, yet it would come to be distributed over the whole kingdom, while the banker, through whom the operation was first effected, and through whom the increase first took place, might not enjoy five pounds of additional circulation by it.

On the other hand, if a person were to take to a

banker, a thousand pounds which he had saved, and order him to purchase stock with it, he would have to furnish the money in London to purchase it with.—This would reduce his funds in London, and he would contract his issues to that extent, that is, he would not re-issue the notes again. This would make first, a local balance in his favor, and then an internal balance in favor of the district. The circulation would be contracted a thousand pounds, but it would be spread over the kingdom, and the reduction in his issues might not be five pounds.

The expansion and contraction thus produced would chiefly be made by means of a supply and demand for London bills. The first banker only could have any chance of knowing that the operations were founded on a sale and purchase of stock. But any distinction between a demand for money on stock, or on bills, the result of an importation of gold, the bankers are not aware of, and could not make if they were disposed. The only guide a banker can have in reference to his circulation, is the state of his funds in London. With him there is not a more safe and legitimate foundation for an increase of issues than a sale of stock.

A demand, however, for money upon, or by a sale of stock, is an internal demand. There is no difference in principle between a banker issuing his notes, on a sale of stock, and the bank of England issuing its notes in purchasing exchequer bills. There are no limits to such issues but the discretion of the parties. The bank of England could, at any time, by a fresh issue of notes, purchase exchequer bills to any extent; and the country bankers could buy up the whole national debt with their notes upon the most legitimate principles of country banking.

Every order for a sale of stock is a transfer to the banker of the money in London, which it produces, and he becomes, consequently, a buyer of as much stock as is sold. If the bankers had orders to sell the whole national debt, it would not make any difference in the money market; they would purchase to a shilling the same amount as they disposed of. It would practically be nothing but a transfer of securities in exchange for their notes. They might as well, with reference to the currency, advance the same money on the mortgage of, or in the purchase of land. The only difference would be, that the interest upon stock is payable in London, while the rent of land is payable in the country; an important difference, no doubt, to the banker, but none as regards the principles on which the notes would be issued.

The Country Bankers are unable to distinguish the Principles upon which their Issues are made.—Thus it will appear evident, that bankers generally cannot have the power of distinguishing from their own experience any difference between a demand for their notes resulting from an importation of gold or a sale of stock. Neither can they, from their own experience, distinguish whether a contraction or enlargement of the currency takes place, by money being placed in their hands, and not lent out again, or by being drawn out of their hands, without a corresponding amount having been previously lodged with them. The moment a person lodges money with a banker, which the banker cannot lend out again, his circulation being reduced beneath the level of his neighbours, the local balance of payments is determined in his favour, in the first instance, and next, the internal balance is determined in favour of the district, and *vice versa*. Except, therefore, by

the first bank, the contraction or enlargement thus produced, is the result of a demand or supply of London bills, the same as if it were produced by an exportation and importation of gold.

Thus it will be seen that it is quite impossible for the bankers to know practically, the causes by which their issues are increased and diminished. All they know is, that they can neither increase nor diminish them out of proportion with their neighbours in the regular way of their business. Hence, they have been led to infer, that they have always correctly supplied the country with the proper amount of money. And as bankers, it was hardly possible for them to have formed any other conclusion.

All the Issues of the Country Banks made in supplying the Demand for the Savings of Income.—This conclusion, however, is very far from being a just one. Their notes are lent over the counter to persons who give securities for them, which must be of two kinds; either local securities—such as mortgages, bonds, or bills payable at home, or money lent to individuals upon their own personal responsibility; or London securities,—such as bills upon London, a transfer of stock or other property in London, or bills upon other places, which will be finally paid by bills upon London.

A demand for money upon home securities is evidently a demand for the savings of income, and as we have before seen, bills upon London may arise from a transfer of stock, as much as upon an importation of gold.

But it must also be observed, that when the country banks issue their notes in the discount of London bills, founded upon an importation of gold, and their notes come to represent the gold in the country, it, on the

other hand, represents their notes in London, by which they, in point of fact, supply a corresponding interest demand for money in London. The gold, in representing their notes, produces the same effect as if they had issued the same amount of notes in London, in the purchase of stock, &c. without an importation of gold.

All the issues of the country banks, therefore, are, directly or indirectly, made in supplying the demand for the savings of income.

The Causes of the Fluctuations in the Amount of Country Bank Notes, since the War.—There are, however, only two principles upon which the issues of the country banks can be increased and decreased, namely, by an importation and exportation of gold, or by an alteration in the supply and demand for the savings of income.

We have only to determine, by reference to the balance of payments, that any fluctuation in the amount of their issues, did not proceed from the former, in order to determine that they did proceed from the latter cause.

Now we have already seen, by an examination into the fluctuations in the issues of the country banks, which have occurred since the war, that they were not produced by importations and exportations of gold, and they consequently must have proceeded from fluctuations in the demand and supply of the savings of income: except, indeed, in so far as they have resulted from want of confidence. It is absolutely necessary, in order for the banks to issue notes at all, that they should have confidence in the securities offered them by the public, and that the public should have confidence in the stability of the banks. When this mutual confidence is destroyed, a very powerful cause for a

contraction of the currency, at least, is immediately produced.

The fluctuations, since the war, have proceeded from both these causes; though chiefly from the former. This is easily accounted for. The country banks always charge a fixed rate of interest, and never lend money, except at that rate. This we have seen in the case of the bank of England, could not fail to produce great fluctuations in the amount of its issues; and it is obvious, that it must have the same effect upon those of the country banks. Hence, the fluctuations in their issues, since the war, may probably be thus accounted for.

During the war, the borrowings of government kept the savings of income scarce, and interest high. But, on the return of peace, the demand for money began to fall off, and the currency to contract. This, however, was in part counteracted, by the extension of demand for capital in trade, from the new channels that were opened; and had it not been for the failures amongst the banks in 1815 and 1816, and the want of confidence by the public in the banks, and by the banks in the public, the currency, at that time, would not have contracted so much as it did. That the contraction in 1815 and 1816, was greatly the result of want of confidence, is sufficiently proved by the evidence of the bankers, taken by the committee on the resumption of cash payments, in 1819.

In 1816 we had a bad harvest, and a great loss of income. This produced a great demand upon the banks for money, and a corresponding extension of issues; a demand, which was no doubt increased by the commercial activity to which the extension of issues gave rise. This extension took place in 1817 and 1818.

In 1819, our currency began again to contract. This, we have no doubt, was still the effects of our return from war to peace. The economy and expenditure of the country must always be accommodated to each other. What one part of the community spends, the other must save. When, therefore, government borrowed so largely during the war, it raised the rate of interest and profits, and enabled the commercial classes to save the money it borrowed; but when it ceases to borrow, they must cease to save. This, on the other hand, would be brought about by a reduction of interest and profits. The savings, for which there did not exist the usual demand, would have to be lent at less interest, or be employed in trade, where the capital was already as great as was necessary, and where, by competition, the scale of profits would be reduced. By this means, the commercial classes would be deprived of the power of saving, until the economy of the nation was reduced to a level with its expenditure. This, no doubt, would take a few years to accomplish, and we are disposed to consider the unprecedented contraction of the currency which occurred from 1819 to 1822,—in which time, it is probable, that the issues of the banks were annihilated, and replaced by fresh issues on the gold imported, to have been the result of the effort of nature to restore the savings of the nation to a level with the reduced demand for them, consequent upon the cessation of borrowing by government.

When things run to extremes, one is apt to beget another; and, in 1823, it is probable, that the banks began to experience a demand for the money previously deposited with them, in consequence of the economy of the nation having been reduced below its proper

level. They began, in consequence, to increase their issues, notwithstanding the balance of payments was, shortly after, turned against the country.

That the sum of our currency should increase and decrease in spite of the balance of payments, will not appear surprising, when we reflect that government alone has borrowed, in one year, nearly as much interest money, or the savings of income, as the whole of the currency amounts to. So long as it is affected, therefore, by the savings of income, the balance of payments must have a very secondary influence. It may, in time, heal the wound or fluctuation caused, but can never prevent it.

Since 1825, the contraction has evidently proceeded from the panic, and its consequences. But the economy and expenditure of the nation, must now be pretty much upon a level; and, there is no doubt, that as soon as trade is restored to its proper state, the issues of the banks will again increase.

A Reform in our Systems of Currency and Banking required.—It must be unnecessary to repeat, that all these causes of fluctuations or derangements in our currency, were illegitimate, as their effects were evidently injurious. No alterations in the amount of the currency, and scale of prices, ought ever to be produced by any internal cause. The only object of any one particular scale of prices more than another, is to regulate our foreign trade, and bring it to a balance in commodities, which can never be accomplished as long as the prices vary, from fluctuations in the value of money, and from want of confidence in the banks. It is clear, therefore, that our monetary system is defective, and that a reform in it is required; and we shall next proceed to consider the nature of this reform.

The Power of issuing Notes at Pleasure ought to be taken from the Banks, and the Currency be made to regulate itself without human Interference, on the same Principles as a Metallic Currency.—These are of two kinds, first, as regards the mode in which the currency is issued, and next, as regards the stability of the banks that issue it, and by which the money operations of the country are conducted.

In the first place, then, it must be obvious that our currency is issued on wrong principles. A metallic currency is evidently the proper model for a circulating medium. The amount of it would be regulated by the foreign trade of the country: banks could not increase it, as they do notes; and they evidently would not destroy it. When our trade balanced, our prices would be steady, and the balance could not be disturbed. The savings of income would have no effect in altering the amount of money in circulation. When they exceeded the demand for them, the interest of money would fall; when they were scarce, it would rise. The economy and expenditure of the nation would not affect the price of commodities; nor would the amount of money current be determined by any human agency. It would be determined by our foreign trade alone, regulated, no doubt, by the corn laws.

Now, this is precisely what should be the case with our currency. It can never be perfect until the power of issuing notes at pleasure be taken from the banks altogether, and the system be made to regulate itself without human interference, in the same manner as a metallic currency.

And this is quite practicable. A gold circulation is neither necessary, nor desirable. Gold, as money, is a much less perfect instrument than paper, or, at least,

than paper may be rendered; while, it may be made to regulate itself with equal precision and greater facility. It is the abuse, and not the use of paper money, that is objectionable. Gold is a rude and clumsy instrument compared with paper; and, we have no doubt that when the subject of currency is better understood, paper will be adopted in preference to gold by every civilized country.

In each of our former publications on corn and currency, we have pointed out the manner in which the currency may be made to regulate itself. But it is our intention to take the first leisure opportunity to devote a pamphlet exclusively to that subject, and we shall confine the few observations we have to make at present, chiefly to the banks, by which the currency is issued. We shall merely observe, with regard to that plan, that in one respect, it is imperfect. It proposes that our currency shall be issued by joint stock banks exclusively. Whereas, whenever it is regulated, it must be taken as it stands. Any further improvements, of whatever nature they may be, must be afterwards made by slow degrees.

A Change in our System of Currency practicable without Injury to the existing Banks, which must be dealt with cautiously.—This, however, does not present any insurmountable difficulty. We are persuaded, that by a succession of proper steps, taken at the proper times, our currency may be put upon the right footing almost without discussion in parliament; and without any change, for which any one banker would find it necessary to prepare by calling in his issues, or in any other way altering his course of dealing with the public.

We have, indeed, been taught, by recent experience, the frailty of our system, and the necessity of dealing

with it cautiously. Every banker's operations are of great importance to his customers, and not only ought nothing to be done, which would make him suddenly alter his course of dealing with them; but even his mind ought to be kept at ease on the subject. The dubious nature of the credit on which he depends, keeps him at all times under a certain state of apprehension, and he might easily be worked upon in anticipation or fear of any change, to take steps which could not fail to be hurtful to the public.

Private Banks never enjoy a rational public Confidence.—This state of apprehension, in which bankers exist, is the natural consequence of the system of private banking. Our banks do not consist on the average of more than three partners. These are in general wealthy. But the public have no evidence of their wealth, and frequently form very erroneous opinions on the subject. It often occurs, that a bank which has been supposed immensely rich, has been insolvent for 10 or 20 years. There are perhaps amongst the upper classes of commercial men, a few who have the power, from their knowledge of the parties, to exercise a proper discrimination. But should these doubt the solvency of a bank, they always keep it to themselves. The public at large have no means of discriminating with any accuracy, between one bank and another. They have, therefore, no rational ground of confidence, and consequently, in periods of confidence, they confide in all—in periods of distrust, they distrust all.

The History of the Panic.—This latter was sufficiently proved by the general panic which occurred in December, 1825. The balance of payments in our favour, which had existed between 1819 and 1824, had made capital plentiful in London, and it had been lent out by

the bankers on any kind of good security, upon which interest could be had, and people had been induced to borrow, by the easy terms upon which money could be obtained. But when the balance of payments was turned against us in 1824, a change began to be produced. But this change was not felt at first. The bank of England had previously accumulated a great stock of gold, and instead of allowing the circulation to contract, when the demand for it for exportation began first to be experienced, they re-issued their notes in loans at interest, by which they created as much interest money on the one hand, as the balance of payments cancelled on the other. By this means, the effect of the balance of payments upon the money market, was for some time averted. But the bank was obliged, at last, to let the balance of payments against us take its natural course; and, in the space, we believe, of less than twelve months, their issues were contracted three or four millions, independent of the gold currency which might be taken out of circulation. All this, of course, was taken out of the money market.

For this contraction of their issues, the directors incurred much censure. But those who blamed them, were probably not aware that it was not a voluntary act on their part.

The effect of it was, to produce much pecuniary embarrassment in the city of London; and when this is the case, a mutual suspicion is certain to arise between the banks and their customers. The bankers ruin some of their customers by withdrawing their usual accommodation, and embarrass them all; and they, in consequence, begin to doubt and suspect the credit of all. The customers of a banker, on the other hand, always begin to think him poor, when he

is pinched. They never consider that he does not lend his own money, but the money that is lent to him; and that if he has not as much lent him as usual, he cannot be as liberal as usual in lending to others. They do not reflect, that his title to their confidence rests upon the amount of his property, and the solvency of his bank, and not upon the state of his funds as a banker. But when he is poor in funds, they begin to doubt whether he be the wealthy person they took him for; or, at any rate, if there be the least circumstance to hang a doubt upon, the doubt is very apt to be magnified. In this state of feeling, the least alarm will produce a run upon a bank; and thus matters stood in London in the latter end of 1825.

In the country, things were different. A demand for money had arisen; but, the banks had enlarged their issues, and supplied that demand, and no want of money was felt. The balance of payments was, no doubt, against the nation, and the funds in London of the country banks had been diminished; but, as these had previously been increased to a far greater extent, by the much greater balance which had before been so long in favour of the country, none of them that were at all solvent were inconvenienced.

A few insolvent banks, however, did stop payment. When a country bank is insolvent, and is obliged to push its notes into circulation, in order to raise funds, the local balance of payments is so frequently against it, that it seldom has any large surplus of money in London, and there is nothing so likely to stop such a bank, as a balance of payments against the country, by which a general demand upon all the banks for bills upon London is created. In such case, its resources in London soon become exhausted, and its agents in

London refuse to accept its bills, or it is reduced to a course of dealing in the country, which betrays its weakness, and destroys its credit.

The failure of each of these banks produced distrust, and runs upon the other banks in the neighbourhood where they were situated, but communicated no further. Panics in the country seldom extend beyond the neighbourhood where they occur. But the banks generally throughout the kingdom, were, in consequence, induced to increase their stock of gold and bank of England notes, in anticipation of the possibility of their part of the country being visited by similar runs, from failures more near them.

This demand for money, coming in addition to the previous exportation of gold, increased the scarcity of it in London to a great degree. The difficulties of the bankers' situation began to be understood, and the people to be alarmed for their safety, and smart runs took place upon some of them. These were promptly met. One, however, took place on the house of Sir Peter Pole, Bart., and Co., and it stopped payment. It met the run upon it, for two or three days, up to the Saturday night; but did not open on the Monday morning. Sir Peter Pole's was a very great house, and its stoppage caused an immediate distrust, more or less, of every bank in London, which was increased to a general panic by five other banks stopping payment also—being six in all. Three of these were wealthy houses, and resumed; and two of the others paid, or will pay twenty shillings in the pound. But this was, of course, not known for a day or two.

Between forty and fifty country banks drew on Sir Peter Pole's house, and at least as many upon the others which stopped; and upon all these a run, in consequence,

was certain to take place, as well as upon the banks in the immediate neighbourhood where they were respectively situated.

Besides, a panic in London is readily communicated to the rest of the kingdom by means of the press. When a panic takes place in any part of the country, it is never heard of by the nation at large until it is over; and then the details respecting it are few, and leave nothing for the mind to dwell upon. But when such a crisis takes place in London, every circumstance respecting it is daily recorded, and the fears and hopes it excites, are communicated by the press to every part of the kingdom, almost with the vividness of oral communication, independent of the circumstance, that every letter which leaves London speaks of it more or less. As fear is infectious, this itself is sufficient to disseminate distrust throughout the kingdom. But, coupled with the failure in London, of banks which the country establishments draw upon; and, subsequently by the stoppage of many of these establishments, it is not difficult to conceive that a panic in London must soon become a panic throughout the kingdom, at least, as far as the system of private banking extends.

In such a state of things, it is not difficult to foresee the consequences. There are seventy London banks, who, upon the average, have probably half a million each deposited with them, or £35,000,000 in the whole. There are between six and seven hundred private banks in the country; and, if we assume their engagements to amount to only twice that sum, it will make the total upwards of one hundred millions. Now, in ordinary, there never can be more than five or six millions of actual cash in the money market of London. The rest of the circulation is distributed in small

amounts in different hands; and if we suppose that not more than one-fourth of the creditors of the banks participated in the fears of the panic, there would be a demand upon them for four times the money that it was possible to obtain in London on any terms. It might, therefore, have been expected, that one half, at least, of the banks in the kingdom, would, in consequence, have been compelled to stop payment, with all the train of consequences that would have resulted from such a convulsion. But this was prevented by a circumstance which shews the value of a right idea when it is wanted.

It may naturally be supposed that the Bank Directors were all this time pressed upon to enlarge their issues, and they probably did so to a small extent. But there were strong reasons against their doing so in any considerable degree:—first, their stock of gold, by the previous balance of payments against the country, had been much reduced, and they found, that no sooner did they issue their notes, than a considerable portion were returned upon them in a demand for gold, to send into the country: the country banks wanting gold with which to pay their one pound notes. Next, the balance of payments had been against the country, to an extent which had placed the bank in a state of considerable alarm, and an increase of issues would eventually either create a fresh balance against the country, or render it necessary for them to draw their notes in again, and this would create a fresh panic; for they were conscious that the contraction of their issues had led to the existing one. Therefore, however pressing the demand for money might be, consideration for the safety of the bank, as well as for the public, prevented their supplying it: for to have enlarged their issues would

only be to put off the evil, and not to prevent it. Besides, though there never had been a panic so simultaneous and general, they had occurred repeatedly before, and the bank had always on such occasions rather contracted than enlarged their issues. There was, therefore, neither precedent nor principle to justify a very opposite course in the present instance.

They, notwithstanding, more than once, when matters were becoming very bad, applied to ministers on the subject, and the uniform answer they were understood to have received was, that they, the ministers, could not direct them, that they must do what appeared to them, as bankers, most adviseable under the circumstances, or to that effect.

Fortunately, however, before it was too late, a view of the subject occurred to ministers, and was communicated by them through the Courier newspaper to the public, or otherwise was suggested by the Courier to government and the bank, and acted upon by them, which, had it occurred a little sooner, would have prevented much of the mischief that did happen, but as it was, it averted the almost fatal consequences to the nation which appeared inevitable.

It was undoubtedly very simple, as most useful ideas are, though it had never been before promulgated. An issue of notes, the Courier observed, in supplying a demand for money produced by panic, would not have the same effect, as an issue under other circumstances. It would not, for instance, have the effect of turning the exchanges, or balance of payments against the country. To do this, the money must be spent in a demand for manufactures, or in consumption, by which an elevation of prices would be produced; and this must be a work of time; whereas at that moment the

prices of all things were falling, and there was not the least disposition for increased commercial operations. The demand for money, on the contrary, was the mere result of fear for the stability of the banks, and the money would be returned to them as soon as confidence was restored. The persons who kept money with them, kept it there for their own interest, and not for the sake of their bankers. When therefore confidence was restored, the same motives which had induced them to place it with the banks before, would induce them to return it again. When this was done, the bankers would, for their own sakes, repay what they had borrowed of the bank; while both the Bank of England notes, and gold sent into the country, would soon be replaced by country notes, and be returned to London, after the credit of the banks was re-established. Hence the bank might supply the demand resulting from the panic to any extent, and take its notes out of circulation afterwards without any inconvenience to the public whatever; and finally, that the only way to restore confidence was to enable the bankers to satisfy all demands upon them by prompt payment. The Courier, therefore, urged the propriety of the bank increasing its issues at once to the full extent of the demand, upon any kind of good security.

This doctrine was clear and obvious, when once suggested, and most of the other papers promulgated it; and there could be no doubt that the directors would have been sanctioned, at least by public opinion, in acting upon it, though the course recommended was a new one. But there was still this difficulty—that the bank could not increase its issues without incurring the risk of stopping payment; though such a stoppage,

if not the result of a balance of payment against the country, might be of no importance.

The bank loses no credit, by stopping payment, as in the case of private banks. When it does so, in consequence of a demand for gold for exportation, the value of its notes merely become depreciated, compared with gold. The directors, in consequence, endeavour to keep its circulation sufficiently low, to prevent the balance of payments going against us to too great an extent.

But in supplying an internal demand, from panic, gold is wanted only for a temporary purpose, and the principal part is certain to find its way back again. There can no possible harm result, therefore, if its supply of gold be exhausted, and it should stop payment. There is a good deal of mistaken opinion, however, extant on these subjects, and the directors would not have been justified in placing the bank in a situation that would render such an event probable; although, if properly understood, it might be seen that no harm could result from it.

Now, the country bankers all wanted gold; but so long as the directors did not increase its issues, more than three or four millions of its notes could not by any possibility have come into the country bankers or their agents' hands; and the bank could not have had a demand for gold which it could not have supplied. But if it increased its issues, the case would be different. It would then give the country bankers a power of demanding gold beyond the amount that it might be able to supply, and its being obliged to stop payment would be rendered very probable.

The consequence was, that ministers took the affair on their own shoulders. It is understood they agreed,

that in the event of the bank being drained of its gold, and being obliged to suspend cash payments in point of fact, they would issue an order in council to require it to do so by authority, and thus take the responsibility of the whole proceeding on themselves.

On this assurance the bank acted, and acted so decidedly, that in three days, namely, on Thursday, Friday, and Saturday, it is believed to have issued all the notes and all the coined gold it had in the bank. By this, the panic in London was effectually stopped; and all the clerks in the bank, as well as the mint, being employed night and day, Sunday inclusive, in making more money, the demand by the country banks was also supplied, and in a very few days the panic was over without the bank having had occasion to resort to the order in council; yet, in six or eight days, it had increased its issues eight millions in notes, besides, probably half that amount in gold. As was predicted, the bank was afterwards enabled to withdraw those increased issues without the least inconvenience, or even consciousness on the part of the public; while the nation was saved by them from the most awful commercial convulsion it was ever threatened with.

The proceedings of the bank, more especially with regard to its issues, are always the subject of much public discussion both in and out of Parliament. It is a curious fact, however, that this extension of issues was hardly ever adverted to after the panic had ceased, though it was necessarily continued for some months.

This was doubtless an evidence of the public satisfaction. At the same time, very few people are aware of the danger the country was in, and the extent of the calamity avoided. So little so, that when Mr Huskisson had occasion to mention, in parliament, that ministers took an active part in the mea-

sures that were adopted by the bank during the panic, or to that effect, not a single observation, commendatory or otherwise, we believe, was elicited by the remark. None seemed to be aware that ministers were entitled to any credit; yet, had Bonaparte landed, and taken possession of London, he would not have given so great a shock to commerce as was averted by these measures. Corn, ere this, must have been under forty shillings a quarter, and houses would have been ruined by the bankruptcies of others, and fall in the price of goods that would have followed, who would not now admit, or even suppose, such an event possible.

The Bubble Mania without Cause or Effect, as regarded the Currency and Banks.—It may be proper to observe by the way, that the bubble mania, or rage for joint stock companies, which occurred in 1824 and 1825, was attributed in a great measure to the country bankers, and was supposed to have been the chief cause of the panic. But the country bankers could only have given rise to it by purchasing the shares of these companies, which subsequent enquiries have proved they did not do in any greater, if in so great a degree, as other classes of the community. Nor yet could it have caused the panic, unless the public had been induced to suppose, that the London bankers had injured themselves by purchasing or lending money on these shares, which was never insinuated.

The money, or savings of income, actually employed by these companies in 1824 and 1825, was very trifling —not more than a million or two. This was not spent in London itself, so that it could not affect the London money market. With the exception of the money actually spent in the employment of labour, every other sale or purchase, whether of shares or property, was a

mere transfer of property,—of probably stock into shares by the losing party, and shares into stock by the party that gained, &c.

It makes no difference to the nation at large, whether property be held by A. or B. If a man loses his estate at play, the nation is neither richer nor poorer for it. Nor is gambling on the stock exchange of a different character. The money market cannot be affected by any transaction, in which the savings of income are not created or consumed. Neither of these effects, to an extent worthy of notice, had been produced in 1824 and 1825, by the bubble mania, and it had therefore no connection with the currency. It was a mere madness, for which no rational account can be given, and which was without cause, and without effect, as regarded the nation at large. At the same time, there can be no doubt that the panic had a great effect upon it, though it had none upon the panic.

The second Panic, produced by the Letter of Ministers to the Bank, a further Proof of the Necessity of a Reform in the Banking System.—It might have been supposed, after the solvency of those banks which had stood the test of the panic, had been so fairly tried, their credit with the public would be established beyond all question. Sixty or seventy, and amongst them some very strong banks, had stopped payment, and these sixty or seventy, it was fair to infer, contained all those not fully entitled to public confidence. So that whatever might be said of the system generally, there could be no doubt that, for some time at least, the faith of the public, in the goodness of the existing banks, had become firmly rooted.

It was natural also to imagine that, on the meeting of parliament, after such a convulsion, something would

be said on the subject, and that some steps would be taken by ministers, if not to relieve the existing commercial embarrassment and distress which the panic had caused, at least to prevent the recurrence of such panics in future. With this view, it was proposed by ministers, to encourage the establishment of joint stock banks. These panics had never extended to Scotland, where the banks are chiefly joint stock companies; and the establishment of such companies in England, was evidently the simplest and most effectual mode of guarding against a return of such panics. Their establishment had been hitherto prevented, by the charter of the bank of England, which limited the number of partners in all other banks to six.

Ministers, therefore, wrote a letter to the bank, contrasting the instability of our banks, with those of Scotland, strongly pointing out the necessity for an improvement in our system, and calling upon the bank to give up that privilege of its charter which excluded other banks from having more than six partners, a request which was partly acceded to; but, very much to the surprise of every one, this letter produced another panic, which had it extended to London, as well as the country, would, in all probability, have been quite as bad as the former one. As it was, a very severe, though gradual demand for gold and bank of England notes, was experienced by a great majority of the country banks, from which they of course suffered much inconvenience.

For this second panic, the ministers were severely censured by the country bankers; but it was not possible for ministers to have supposed that they enjoyed so little of the public confidence. This second panic certainly shewed the necessity of dealing delicately

with the banks, but it was an additional evidence of the truth of the arguments contained in the letter complained of. It did not prove that no reform ought to be made, the practical inference which the bankers were willing to draw, but it proved more strongly than before, if that could well be, the necessity for improvement, even though it should be obtained, which is not requisite, with some present inconvenience to the public.

Money in a Bank consists in Houses, Lands, Goods, &c. and not of Money, and it is a Defect in Principle, that there should ever, from Panic, be a Demand for that which has no Existence.—This necessity will appear still more apparent, if we only examine into the nature of banking—we mean of banking unconnected with the issue of notes, which is not the legitimate business of a banker. Many persons have thought that the evils of private banking arise chiefly from the power of issuing notes; whereas, it must be apparent, that had our currency been exclusively metallic, more than one-half the banks in the kingdom must have stopped payment during the late panic. The very existence of a system of private banking, is compatible only with a currency which can be issued to meet the demands of those panics to which it is liable.

The proper and legitimate business of a bank is to borrow and lend the savings of income. Many people have money which they do not wish to lend out permanently, and yet would be glad to turn it to some account. There are many, on the other hand, who do not wish to borrow money permanently, and yet are desirous to do so for short periods. The party who has money to lend for a short period, has matters of his own to attend to, and has not the opportunity of know-

ing the parties who may wish to borrow for short periods, nor the value of the securities they may have to offer. The borrower for short periods, on the other hand, could not spend the time necessary to find out the individual who might be willing to lend the precise sum, for the precise time he wanted it. Hence, a middle person is required between them. The one is willing to take less interest of a third party, who will take the risk and trouble of lending his money, off his hands; and the borrower is willing to give a little more interest, in order to be accommodated with the money he requires, without the trouble and inconvenience of finding and dealing with the original lender. Thus the business of the banker arises. He is this middle party. The party who has money to lend, places it in his hands, and he lends it out again to those who wish to borrow, and he makes a profit by doing so.

Every extensive business, in time, comes to be conducted on such general principles, as are found, by experience, to be best suited to the convenience of the public. The general rule with bankers is, to borrow without fixing any day of re-payment; but they engage to re-pay the money lent or deposited with them whenever it is wanted. Experience teaches them how far they may calculate upon the permanency of these loans; and they, on the other hand, lend the money out on such securities, and for such periods, as shall enable them to meet the demands upon them by their depositing customers as they arise. What they can, they lend in general for short periods, and the rest for longer periods, or they employ the money in the purchase of stock, &c.

The interest given by bankers differs in different places. The London bankers give none in money. The

interest they pay, is in the labour and trouble of paying the checks, and collecting the bills and checks of their customers. For this, they receive no other compensation than the balance which they may find it convenient, for their own purposes, to keep in their hands. The interest they charge, on the other hand, is in general five per cent. to their regular customers who may wish to borrow, and whatever they can get, when they are obliged to resort to other means of lending, in order to employ the money in their hands.

The Scotch banks allow one per cent. less interest than they charge. But they make a profit by issuing notes, which the London bankers do not; and every person who keeps an account with them, and is in the habit of paying in and taking out money, gives them a proportionate share of the general circulation of the country.

In Lancashire, the banks do not issue notes, and yet allow as much interest as they charge; but they charge a commission on the amount of business done; which is the fairest and most proper mode of charging. In that case every man pays according to the trouble he gives; which we believe is found, in the long run, to be the best, both for the banks and their customers.

One of the great uses of a bank, it must be obvious, is to lend the savings of income to those who wish to borrow, with greater facility than could be done by the party who saved them. The money placed in a bank does not remain in it, but is lent out again. It must be equally obvious, that the party who borrows, and pays interest for money, does not do so to make no use of it. His object is in some way or other to spend it. He may do this, either in building houses, in buying or manufacturing goods, or in consuming them, or in some

other way. But it is of no importance to the banker in what way the money is spent. He does not look to the use that is made of it, but to the security he has for it. At the same time it is certain, that the money ceases to exist as money or the savings of income, as soon as it passes out of his hands. If it be spent in consumption, and he obtain a mortgage on an estate for it, it is in that case converted into land; or if it be lent on personal security, it is converted into the property of the parties who are security for it, whatever that property may consist of; or if stock be purchased with it, the seller of the stock will consume the money in the way that best suits his interest or inclination, but the money will cease to exist, and as regards the bankers, be converted into a mortgage on the property of the nation at large.

Hence, it is clear that the phrase that is generally used to express the quantity of money lent to a bank, namely, that there is a great deal of money in it, is a misnomer. The money deposited with a bank is neither in it, nor yet in existence. It consists of land, houses, goods, &c.

But, notwithstanding the money has no existence, the banker feels no hesitation in engaging to pay every depositor his money at a moment's notice.

This, the banks are collectively quite safe in doing, so long as their credit remains unimpeached. Upon the aggregate, the savings of income are equal to the spendings; and when one party draws money out of their hands, another generally places an equal amount with them. But when this is not the case, money spent in consumption must be gradually spent, and the banks have time to withdraw their loans from trade to meet the growing scarcity of money, without inconvenience

to any one. The tradesmen being obliged to repay the banker, must reduce his stock. The increased consumption, therefore, so far as it extends to goods, must take place out of the stock on hand; and, while the tradesman is compelled to reduce his stock to furnish the money on the one hand, the increased consumption on the other, enables him to do so, by increasing the demand for his goods. But, in as far as the increased consumption extends to agricultural produce, the tradesman will be obliged to reduce his orders to the manufacturer. This will throw the manufacturing labourer out of employment, and the demand for agricultural produce will be diminished on the one hand, as it is increased on the other. As the stocks of the tradesmen were thus reduced, capital would become scarce and profits would rise, until the savings of income became as much greater as to meet the extra demand that had arisen for them.

These changes must necessarily be so gradual, that neither the banks who promise to pay on demand, nor the public, could be inconvenienced by them.

Should a person draw money out of a bank, not to spend, but to purchase property with it, and should the party selling the property, not spend it, nor yet any person he might pay it to, it would evidently find its way back into the banks again, for people do not keep money in their pockets. This must be the case with all money which is not spent. It may change hands, or it may change banks, but though drawn out by one party, it is certain to be paid in again by another.

If one bank gains the deposits of another, and the latter is obliged to sell its funded property, or withdraw its accommodation to trade, the other is enabled to purchase its stock and extend the accommodation to

trade, which one is obliged to withdraw; so that this amounts only to a change of securities from one bank to another.

Thus, though the banks when they promise to pay all the money they owe at a moment's notice, may seem to come under a fearful responsibility, yet, it must be evident, that so long as their credit remains good, the responsibility is merely nominal. The Scotch banks, whose credit has never been shaken, are said to have twenty millions of money lent to them on these terms; while the whole circulation of that kingdom is only about three millions and a half, exclusive of small change, and they have never suffered any inconvenience thereby, except they may have occasionally suffered loss by the panics of this country.

In a panic, all banks suffer more or less, however great their credit. Stocks experience a temporary fall, of which all persons with money are desirous to avail themselves, and people draw their money out of the banks for that purpose. Thus, the Scotch banks, during the panic, would have a demand for bills upon London at sight, or for bank of England notes, to be sent up to London to purchase stock with; and the banks would have to pay these bills, or obtain the notes, by perhaps selling the very stock purchased with them. What the public make at these periods, the banks lose; and banks that are far removed above the fear of panics, generally feel these consequences in a greater or less degree.

As it thus appears that the money in banks consists in houses, lands, goods, &c. and not in money, it is clearly a defect in principle that they should ever be called on to pay that which has no existence. At the same time, it is so suitable to the public convenience,

that banks should stipulate to pay on demand, that none can obtain business that will not do so, and our country banks engage to do so, whether such demand proceeds from panic or not.

Had our Country Banks been Joint Stock Companies, their Issues would not have fluctuated as they have done.—Out of this a great practical evil arises, which has perhaps contributed as much as any thing to the fluctuations in the amount of their issues, which we have experienced. As they never can know when a panic or run upon them may take place, they must always be provided for it, and can only lend the money deposited with them, upon what is termed convertible securities; that is, securities which can be sold and converted into money—such as stock; or can be at once transferred over to others and money borrowed upon them—such as bills. If they were to lend upon mortgage, or personal bonds, or any other security in short, but stock or bills of exchange, when a panic came, they would be unable to raise the money to meet it, mortgages, bonds, &c. not being convertible securities. All bankers do lend money upon such securities to a certain extent. But their doing so is attended with hazard to themselves, and it is technically termed an illegitimate mode of banking.

But that banking is the most legitimate to the nation by which the money is kept in circulation. It is necessary if a banker cannot lend out money deposited with him on one description of security, that he should not be prevented from lending it upon any other, whether mortgage, bond, or otherwise, that he may be able to obtain. If he cannot do this, he cannot do that which is required of a bank by the interests of the country.

Were banks properly constituted, they would have no difficulty in doing so. The great Scotch banks have not much hesitation in lending on any kind of security, when they cannot get bills, and would have none at all, were they not liable to be affected by the sudden changes in the value of money to which our system of banking gives rise.

Now, in the country, there is no other description of convertible securities than commercial bills, and hence it is of vast importance that the country banks should have credit enough to lend money upon securities which are not convertible. A bank requires more credit in the country than in London, where convertible securities are so much more plentiful; and had our country banks possessed the degree of credit requisite to lend money on inconvertible security, their issues would not have suffered such fluctuations as they have done.

The leading Scotch banks, as we have just observed, enjoy this necessary degree of credit. They possess large paid-up capitals, are managed by boards of directors, chosen by the shareholders, in whose prudence and integrity the public have confidence, and it is known whether these capitals are entire, and the banks are successful or not, by the division of profits they annually make. Public confidence in them is consequently never shaken. They are under no fear of panics, and are under no necessity to consult in lending money, any other rule than their own interest, and the public welfare.

Hence, their issues are not liable to fluctuate in the same degree as the English banks. It is true, no doubt, that they do fluctuate. But this they are compelled to, by the internal balance of payments. They

cannot for any time, keep their issues either above or below those of the English banks; but we can ascertain whether, or not, any contraction or enlargement of them was produced by the same cause as the corresponding enlargement or contraction in those of the English banks, by observing whether they took place at the same time. If they were both the effect of one cause, the effect would be simultaneous; whereas, if the fluctuations in Scotland were consequent upon those in England, and were produced by means of the internal balance of payments, the latter would precede the former.

Three of the great Scotch banks furnished scales of their issues, from 1810 to 1818 inclusive, to the committee of 1819, on the resumption of cash payments. The chief business of one of them—the Royal Bank, is confined to Glasgow; but the other two—the Bank of Scotland and the British Linen Company, have agents in every town of the least importance in Scotland; and, from the scales of their issues, a very fair idea may be formed of the fluctuations in the circulation of Scotland in the period to which they refer. Let us, therefore, compare the scales of their issues with the demand for stamps by the country banks, from the war, up to the date they are furnished to.

For every £1000 in notes which each of these banks had in circulation in the last quarter of 1809, they had the amount in circulation in the undermentioned years:—

Year.	*British Linen Company.*	*Bank of Scotland.*	*Demand for Stamps by the Country Banks.*
1813	1303	839	12,615,509
1814	1337	833	10,773,375
1815	1104	725	7,624,949

Year.	*British Linen Company.*	*Bank of Scotland.*	*Demands for Stamp by the Country Banks.*
1816	940	691	6,423,466
1817	918	732	9,075,958
1818	1171	769	12,316,868

From this table, it will appear evident, that the contraction and enlargement of issues by the Scotch banks followed, and that much more slowly than it might have been supposed they would, the fluctuations of the English banks. Hence, it is clear, that they were caused by these fluctuations, and it may reasonably be inferred, that their issues would have remained comparatively steady had it not been for the English banks. Had the latter, therefore, been as solid, and been enabled to conduct their business on the same principles as the Scotch banks, the fluctuations in the circulation of this country, from which we have suffered so much, would not have occurred: although, it must be admitted, that the power of issuing notes at pleasure is not a power that ought to be possessed by any banks whatever.

Private Banking should, in strictness of principle, be prevented by Law.—That a reform in our system of country banking is absolutely necessary under any system of currency, need hardly be further insisted upon. It is convenient for the public that the banks should engage to pay all money lodged with them on demand; but most injurious to the public, that they should be required to do so from want of confidence, or panic; and no bank ought to be allowed to exist, that could not preserve the confidence of the public, without deranging the circulation by attempting to pay its creditors with money. A run upon a bank arises from a doubt of its

solvency; remove the doubt, and the run ceases; and every bank that cannot do so without resorting to an expedient so hurtful in its consequences to the public, as paying in money, ought to be put down as a public nuisance.

When there was a run upon the bank of England, confidence was restored by investigation into the state of its affairs. This clearly points out the manner in which all similar cases should be treated. Confidence should be restored by proving the distrust to have been groundless. We are persuaded that none of the principal Scotch banks would ever attempt to meet a panic in any other manner. They would otherwise injure both the public and their shareholders. The one by deranging the currency, and the other by the sacrifices they would have to make in order to obtain money in London.

But it is better to prevent evils than to cure them. The same evidence which will restore confidence will prevent distrust, and it is clearly desirable that no bank should be allowed to exist, the capital and management of which are unknown to the public. It is, therefore, evident that all private banking should, in strictness of principle, be prevented by law. It is so in some of the States of North America, from which the most beneficial consequences have resulted.

Our Banking System may be sufficiently improved by an intermixture of Joint Stock Banks as in Scotland.— By the foregoing we have clearly established, that all the fluctuations in prices we have experienced, have been caused by the defective nature of our systems of banking and currency; that any corn law must be perfectly inoperative in keeping prices steady, so long as they remain in their present state; that the banks ought not to have the power of issuing notes at pleasure, and

that in strictness of principle no bank ought to be allowed to exist, that the public could ever distrust, or in which confidence could not be restored without resorting to the expedient of paying in money. We have further seen that a good system of banking, in itself, would be a great practical improvement in the currency; inasmuch as the issues of the Scotch banks would not in all probability have suffered any great fluctuations, had it not been for those of the English.

Now, to put down private banking in this country would be impracticable; and, to put down, had we the power, one system, until we had another, and a better, would be absurd. But, happily, no violent remedies are necessary. The system of banking in Scotland works well in practice; yet, in point of number, there are more private than public banks in that country. The charter of the bank of England never extended to Scotland. Banking has, from the infancy of such institutions, been free, either to private or to public companies, and they have both arisen together. But the consequence is, that the private banks, having to compete with public companies, cannot do so without a superior degree of credit; while, being entitled to such credit, they are upheld and supported by these companies, to whom they apply for that purpose whenever they find occasion.

In applying to a public bank, in the event of a run upon it, a private bank asks no favour,—it confers one. The object of the public bank being to get its notes into circulation, it is glad of such an opportunity. The great Scotch banks assist any bank that requires it, with the greatest readiness, not on public principle only, but from a desire to benefit their respective establishments.

The propriety of bringing our system into this state, and the means of doing so, are evidently objects entitled to, if they may not be said to demand, the immediate consideration of both ministers and parliament.

If large public banks were established in every part of the kingdom, they would first have the effect of purifying the system of private banks, by bringing them into competition with banks of superior credit; next, in the event of a panic or run upon any private bank, it would have a public bank, as in Scotland, to apply to for a supply of notes, without sending all the way to London, and obtaining such supply by a great sacrifice of property, on the stock exchange; and finally they would, as we have seen, also contribute to prevent those fluctuations in the currency, from alterations in the value of money, to which the present system is so liable.

Were our banking system once in this state, the government, should it appear necessary, might proceed to the regulation of its issues upon right principles with the greater confidence. To found a sound system of currency on such an unsound system of banking as the present, would undoubtedly be commencing at the wrong end. Both prudence and common sense point out, that to give greater stability to the banking system of the country, in the first instance, is at once the safest and most proper mode of proceeding, as well as the most practicable: for nothing, in a matter so important, can be done without public opinion be in its favour, and there does not appear to be two opinions as to the propriety of increasing the stability of our banks.

The Steps taken by Government to improve our Systems of Banking and Currency.—Besides this, government has already taken steps to improve both our systems of banking and currency, though not

sufficiently effectual ones; and these steps we will next proceed to examine. They are as follows:—

1st. The bank of England, at the instance of government, has proceeded to establish branch banks in different parts of the country.

2d. The charter of the bank of England has been altered, so far as to permit the establishment of joint stock companies, at the distance of sixty-five miles from London, the partners in such companies being responsible to the whole extent of their fortunes for the engagements of such banks.

3d. The one pound notes of the country banks are to be withdrawn from circulation, and they are not to be allowed to issue notes under the value of five pounds.

The Branches of the Bank of England.—With regard to the first of these—the establishment of branch banks, much more importance has been attached to it, than it deserves. It was a measure, we have understood, of Lord Liverpool's. It was undertaken by the bank with great reluctance, and can lead to no practical results of any consequence either to the bank or the country. Or at all events, there can be no question that it will not produce those results which there is reason to believe were expected from it by Lord Liverpool.

In his speech on the bank charter amendment bill, Feb. 17, 1826, he stated that "the private bankers "in London had it in their power to circulate their "own notes—a privilege which they all, however, in- "variably waved, because the public would not take "them, so long as they could get those of the bank of "England, in the solvency of which they had more "confidence. So if there were chartered joint stock "banks in other parts of the kingdom, there could be

" no doubt that they would immediately absorb the " whole circulation of the kingdom."—*Hansard's parliamentary debates.*

From this it is evident that his lordship must have thought that the moment the branch banks were established, they would absorb the whole circulation, and that the measure would be a very substantial improvement in our system of currency.

It is unnecessary to observe that experience has sufficiently proved this expectation not to have been well founded. The branch banks can only get that proportion of the circulation which their general business will command, and it has hitherto been a very small one. At the same time also, the branches were proposed, not only with a view to the improvement of the currency, but in order to give increased stability to the banking system generally; and we will examine more in detail the practical results that may be expected from the measure, both to the bank itself and the public.

In the first place then, the bank can establish branches only in principal towns, where the system of private banking is in its greatest state of perfection—where the profits of banking are such as to induce men of large property to be bankers. These branches also, must necessarily confine their transactions to the town in which they are situated. Whereas, what is most wanted is, public banks in these large towns, that can, by means of branches, extend their operations to smaller towns where the banks are not so stable, and where the business of a banker is frequently coupled with other trades, and not unfrequently rendered subservient to purposes of commercial speculation.

In the next place, it must either transact the business of borrowing the savings of income on the same terms

as other banks, and lending them out on such securities as it can obtain, or it must, in dealing with the public, confine its mode of lending money, as in London, to the discounting of commercial bills.

If it were to transact business in the manner first mentioned, the management of ten or twelve—its present number of branches, would take more attention than the directors could spare under the most improved system of management that could be adopted. The Provincial Bank of Ireland, established in London, has not more than that number, which are managed by local boards of directors, consisting of the most respectable and able commercial men in the respective towns where they are situated, and by a set of the most competent agents that any establishment can boast of. In these local boards of directors and their agents, the directors in London have the greatest possible confidence; and practically the business of each branch is managed in Ireland,—and well managed. But the directors in London feel that so long as the responsibility rests with them, they cannot repose a blind confidence. Hence they not only direct the general financial arrangements of the bank, but examine into and understand the nature and propriety of every individual transaction of any importance.

For this purpose, they have to meet every day to inspect the returns and determine the matters referred to them; and without this laborious attention, they could not hold themselves responsible to the public for the successful management of the concern. It is probable that the management of the Provincial Bank of Ireland occupies as much time and attention as that of the bank of England.

Hence, if the branches of the bank did the ordinary and legitimate business of banking, they would, in all

probability, require much more attention than the directors could give to them.

The directors have, consequently, confined their operations to the discounting and granting of bills upon London, and to receiving deposits without interest. As the acceptors reside, and all the bills come to maturity in London, they are, of course, remitted to the bank as soon as discounted, and the directors have thus an opportunity of ascertaining their character the same as if they had been discounted in London in the first instance.

Assuming that the directors should alter the mode of dealing at their branches as they gain experience, no one can doubt that this was, at least, as prudent a mode of commencing operations as they could adopt.

As they charge no commission on their discounts, the bank has to depend for its profits on the circulation exclusively. No one, it is evident, will place money in its hands, without interest, when they can get interest for it of the wealthy private banks, which are to be found where its branches are established; nor can it make any thing by selling bills upon London, at 20 days, its date of drawing. The profit upon these bills, say 14 days interest, at $2\frac{1}{2}$ per cent., will not leave more than sufficient to cover the expence of clerks, to pay them in London, allowing nothing for the stamp for which a commutation must be paid to government. Upon the circulation of its notes, therefore, it has, exclusively, to depend for its profits.

But it is only in places where there is a wide agricultural district, with few banks, that the circulation is depended upon by the country banks, as a source of profit. Taking an average of the banks of the kingdom, the circulation of five pound notes and upwards,

does not pay half their expences. There are from six to eight hundred country banks amongst whom the circulation is divided—suppose six hundred. The expences of these, estimating the managing partner as a salaried clerk, will be at least £1000 per annum each, or £600,000 in the whole. Now, if we take the circulation of five pound notes and upwards, at ten millions, and calculate that three per cent. is made by it, which is the outside, it will leave only three hundred thousand pounds. Hence, it is clear that the aggregate profits of country banking do not at all depend upon the circulation; and how the branches of the bank of England are to make money by depending upon it, it would be difficult to discover.

Where the circulation will not yield a profit, the private banks charge a commission of five shillings per cent. on the transactions of their customers; where it will yield one, they charge no commission.

Now, as the branches neither give interest upon deposits, nor make advances at any time, in any other way than upon commercial bills, they are not depended upon as a regular bank. People only discount with them for cheapness. Where the circulation is profitable, therefore, and the banks charge no commission, and the public have not the inducement of cheapness, people, except in times of panic, will generally prefer the private banks, where they can now get as many bills discounted as they wish. The consequence will, of course be, that the bank will get business where the circulation does not pay, but where it does pay, it will get none.

The circulation also cannot be maintained by discounting bills alone. The customers of the bank must keep their accounts with it, and be in the constant ha-

bit of paying in the notes of other banks, and drawing out those of the bank of England, in order to keep them in circulation. But this, we presume, they are not in the habit of doing. Where the bank has obtained business, therefore, it may not have obtained even what small profit the circulation would yield; and hitherto its branches have been, in all probability, a dead loss.

The bank will, no doubt, in time, improve its system of business. But, if its system were ever so perfect, and its branches realized the very beau ideal of a bank, it must be evident that the operations of any one company can never be of any material importance as an improvement in the banking system of this great country. Banking is any thing but a mechanical business. It requires mind as well as money. The capital of the bank of England might be sufficient to enable it to undertake the business of the whole nation; but it requires banking skill and an intimate knowledge of individual credit to get it, and turn it to account. This, indeed, might be obtained by means of agents and local directors; but it is obvious that the directors in London must have some knowledge of what is going forward also, if they are to be responsible for what is done. More than a given amount of business they could not of course superintend, and this amount must be very trifling compared with the business of the kingdom.

Assuming, therefore, the branches of the bank to realize all that could ever be expected from them, their establishment can be of little importance as a practical improvement in the banking system of the country. At present, they do neither good nor harm. In so far, therefore, the expectations entertained by Lord Liver-

pool, of benefit from the measure, either as an improvement in the systems of currency or banking, have not been realized. The noise which has been made about them has arisen from the annoyance they give the country bankers, by doing business without profit.

The Alteration of the Bank Charter.—The next measure we have to consider is, the alteration of the bank charter, by which the establishment of joint stock banks is permitted 65 miles from London, provided each partner be responsible for the engagements of the bank, to the whole extent of his fortune.

Joint stock banks have proved a very safe and profitable medium for the employment of capital; and few people have any doubt that their establishment in this country would prove as advantageous to the shareholders, as to the public. Four such banks, notwithstanding, and these not very extensive ones, are the whole number that have been formed under this act.

This has chiefly arisen from the clause, which provides, that each partner shall be responsible for the engagements of the company beyond the amount of the capital subscribed.

It is the law of private partnerships, that the responsibility of partners should be thus unlimited, and a very proper one; but it may be very much doubted whether it is a sound or a useful principle of law as applied to public companies, more especially to banks.

In private partnerships, the amount of capital employed is unknown, except to the partners; and without personal responsibility the public would have no security. The success of the business, likewise, depends upon the prudence of the managing partner, who must be chosen by the other partners; and if they were not responsible for his acts, the public would have no

guarantee for the prudence of their choice in the first place, or for their looking after his management in the next. They must be made to do so for their own sakes, or they would never do so for the sake of the public.

The law, consequently, makes every partner personally responsible; but, at the same time, it secures them the power of constantly inspecting the books and state of the concern, and of interfering, when necessary, in the management of it.

Men will only enter into private partnerships, who have a thorough knowledge of the parties with whom they are connecting themselves, and have the means and opportunity of ascertaining, from time to time, the state of the management, so as to interfere with it, should they see it to be necessary for their own interest or safety.

A man who would enter into such a partnership, without knowing before hand, whether his partners were equally responsible with himself, to meet any loss that might be incurred, and who would entrust the management of the business to others, and engage, by a voluntary act of his own, not only not to interfere with it, but not even to inspect the books, and ascertain whether the concern was doing well or ill, would be considered little short of an ideot; yet, all this, a person, who enters into a joint stock company, is obliged to do. He cannot, in general, know any thing of his other partners, and must, of necessity, sign a deed, by which the power of the management is entrusted to the directors, without his being allowed any interference, or being permitted to know more about the management, than they are pleased to tell him.

Few persons, notwithstanding, would have any ob-

jection to take a share in a company on these terms, provided he knew the extent of his adventure in the first instance, and in the next, thought the prospect of gain more than balanced the chance of loss. But he would do so, not upon the principles on which he would enter into a private partnership, but on the same principle that he would play a game at cards. He would put the chance of gain against that of loss; but he must know before-hand, that the amount of the stake is what he can afford to lose.

Men take shares in joint stock companies, not as a serious business which they are to have either the trouble of looking after, or which they are to be anxious about, as with a private partnership; but having no objection to embark a given sum in any adventure, with the chances of profit in their favour, they are willing to take shares in such companies, on the same grounds as they would take a ticket in the lottery. The expectation of profit may be better founded in the one case than in the other: but the principle upon which the speculator engages is the same in both instances; and, in neither, will prudent people embark more than they can afford to lose without being ruined.

Hence they will not generally enter into joint stock companies, without their responsibility be limited to the amount of the capital embarked, either practically from the nature of the business, or by law.

There are many undertakings in which, by the nature of them, this limitation is secured. People, for instance, have no objection, though they be responsible beyond the amount of the capital subscribed, to take shares in companies for the building of bridges, cutting of canals, or even for the sinking of mines. In

such undertakings, the money is applied to a specific purpose. It is converted into property; and, though the speculation may be a bad one, more than the capital embarked in it cannot well be lost. But, in trading upon credit, and more especially in the trade of banking, the case is different; and, if it be the interest of the public to encourage the formation of joint stock banks, this limitation must be secured by law, or people will be deterred from embarking in them.

Banking is a very safe trade when well managed—a very unsafe trade when ill managed. It is likewise a trade that can be conducted without capital. In cutting canals, building bridges, mining, &c. as soon as the capital is spent, if the undertaking be incomplete, the works are brought to a stand, and the shareholders are aware of the capital being exhausted. But a bank may go on twenty years in a state of insolvency, if it have credit, and many have done so. Capital is only wanted by the public to guarantee them against loss; and if they be amply guaranteed by personal responsibility, they will give the bank the same credit as if guaranteed by paid-up capital.

A joint stock banking company could not indeed be carried on, after it had lost its capital, without great fraud or negligence on the part of the directors, which might be properly guarded against in a properly constituted bank. But people in this country are not sufficiently acquainted with joint stock banking. They picture to themselves the ruin that has fallen upon the partners in private banks, and with the law as it now stands, are deterred from embarking in such undertakings. Hence the law defeats its own object.

But were this not the case, it is still a bad law. The public do not want more security than enough, and

where the capital of a bank is sufficiently large, the responsibility of the partners is of no use to the public. There are five public banks in Edinburgh. The partners in two of these—the Commercial, and the National Bank of Scotland, are responsible for their engagements to the whole extent of their fortunes. The first has a paid-up capital of six—the last of five hundred thousand pounds. The other three are chartered banks,, and the partners are not responsible beyond the capitals paid up. Two of them—the Bank of Scotland and the Royal Bank, have each a million of capital and upwards; while the other one—the British Linen Company, has only half a million. Now, the chartered banks enjoy as much credit as the other two, although the united properties of the partners in each of them must be five or ten millions at least, and the British Linen Company enjoys as much credit and business as any of the five, although it offers the least security to the public. It is found by experience that half a million of capital, under the management of a board of directors, who make a general statement of its affairs, and a dividend every year, is sufficient for the trade of Scotland. All that people want is, to be safe. They do not get more out of a bank than they put in, let its capital be ever so large. Hence, the personal responsibility of the shareholders in the Commercial and National banks is of no benefit either to the banks themselves, or to the public, as regards the additional security it affords.

Although it is of no importance to the public, with respect to their ultimate security if it be sufficient, whether it consists in the personal responsibility of the shareholders, or in paid-up capital, it makes a wonderful difference in the proceedings of the directors. Had

the Commercial and National Banks none, or a very trifling capital, though the public would give them the same credit, the directors would be more timid in their mode of doing business than the most timid private bank; and if there is one bank that proceeds more upon principle than another in lending out its money and regulating its issues, it is the Bank of Scotland, in consequence of its having twice the capital of its other three competitors: for the chief business of the Royal Bank is in Glasgow—it has no other agencies, and is not brought so much in competition with the rest as they are with each other.

Now, the particular wants of this country are, banks with large paid-up capitals, to correct by their steadiness of proceeding those vacillations to which our system is so peculiarly liable. But the tendency of the present law is to prevent such banks being formed.

As a general principle, every bank will call up as little capital as it can dispense with. Private banks call up none. If we set the sum that the partners are indebted to the private banks, on the average of the kingdom, against the sum of capital subscribed by them, there can be little doubt that, on the average, there is no capital whatever employed in private banking. Indeed, partners as frequently go into private banks for the purpose of getting capital out, as of putting it in. It is this facility of entering into a business of great profit, without capital, that tempts country gentlemen so frequently to become partners in such banks, to their ruin.

The same principle operates with Joint Stock Companies. The directors are always willing to conduct the business with as little capital as they can dispense with. Calling up capital does not increase the profits of the trade; it only diminishes the per centage on the

amount of the capital employed; whereas, the directors are naturally desirous to make the largest dividends possible. Hence in banks, even where it is not the wish of the directors to call up insufficient capitals, they call up as little as they can. But where the partners are known to each other, their personal responsibility has frequently the effect of inducing the directors to call up less than is desirable; or what is worse still, it leads to the establishment of banks upon personal responsibility alone, in places where the business would not justify the calling up a proper capital.

This is the chief defect of the Scotch system. In every little place there is a joint stock, or rather a joint credit banking company: in some places, even where they cannot find proper people as directors to manage them. To commercial men their management is very simple. But it would be as proper to set a ship to sea with a landsman for a pilot, as to entrust the management of a bank to people unacquainted with accounts and business.

Two of these companies have within these few years stopped payment. Many of their poorer shareholders were ruined, while the rich were compelled to make up the share of loss which the poorer partners were unable to pay. Neither of them had more than twenty thousand pounds capital. Neither of them were established in towns where a suitable board of directors was to be had. Both of them, in consequence, left the management exclusively to the cashier or managing clerk; and in both cases these officers were tempted to abuse their trust, speculate with, and squander away the bank's money, and dupe and blind the directors and shareholders. The result was, that they lost some way about one hundred thousand pounds each.

Sums as large as that, have been lost by the great banks; but no one, not even the shareholders, ever felt the loss. These banks always take care to have a large reserved fund of previously accumulated profits, out of which such losses are paid, and no alteration is in consequence made in the dividends. But if a bank has no reserved fund, the loss of one hundred thousand pounds upon a capital of five times that amount, would only reduce the real value of the shares one-fifth; whereas the loss of that sum on a capital of twenty thousand pounds would render it necessary for the shareholders to pay up, in addition, four times the sum they had previously advanced.

This is a thing the poorer shareholder would not calculate upon, and he would, in consequence be ruined. He would think he could not be wrong in doing what his richer neighbour did, and would perhaps embark all his surplus wealth in his share of the concern; so that, when called upon for more money, the little capital would have to be taken from him, by which he supported his family. The rich man, who paid his deficiency, might lose a greater sum than him; but, he would not be so great a sufferer: for he would not lose his all. In those cases, it is not always those who lose the most money, that are the most to be pitied.

Any law must be defective, which enables men to set up banks upon personal responsibility, rather than paid-up capital; and this is the tendency of the act in question. It introduces into public companies one of the chief vices of private banks. It makes them, as far as it can, joint credit, instead of what they ought to be, joint stock companies, or companies in which each shareholder is represented by his capital. It induces banks to be set up without capitals, and transfers the

loss from the public as creditors, to the public as shareholders in them.

In point of principle, it is more correct that the loss should fall upon the shareholder; but, in point of fact, the hardship is as great in one case as in another. The shareholder, who lost a thousand pounds, would not expect to make more than twenty or thirty pounds per annum additional by his share. The creditor, who lost a thousand pounds, must have had but few dealings with the bank, if he did not derive annually a greater advantage than that from it. The object of the legislature should be, to prevent as much as possible, the public from suffering in either character; and this would be best attained by limiting the responsibility of the shareholders to the amount of the capital paid up.

In such case, no banks could get business without large paid-up capitals. The shareholders may deceive themselves as to the amount of capital requisite—they may be misled by their desire to make profit without capital. But the public would not be so deceived. They have no interest to blind them. They would only deal with those banks whose capitals offered ample security; and if their capitals did offer such security, more would be quite superfluous.

Hence it must be obvious, that the personal responsibility secured by the act for altering the charter of the bank of England, can never be any thing but injurious. If banks be set up with sufficient capitals, it is of no use to the public. If they be set up with insufficient capitals—it, in the first place, cramps their operations, and diminishes their efficiency to the public, as dealers in the savings of income; and in the next, it involves the shareholders in a risk, which the law ought rather to prevent, than induce them to incur.

We admit that this risk is not very great. We may venture to say, that since the publication of the Essay on Banking, the nature, constitution, and internal management of banks, have become better understood; and it is not at all likely that banks in any place will be intrusted to directors, who will not look after them, and understand how to do so. But it is on every account desirable that banks should be as large as they can be, consistent with an intimate personal knowledge of their customers. Large banks must be situated in large towns, where there is a better choice of directors. They pay their officers better, and diminish the temptation to fraud—by increasing their respectability in society, they offer a greater inducement to honorable conduct. By the division of labour also, which takes place in a great bank, the checks are rendered more perfect, and fraud less practicable.

In small places where they have branches, and where the checks would otherwise be less perfect, all is kept right by the strict inspection and controul exercised by the parent bank—an inspection which small banks in such places would not enjoy. A large bank likewise, as we have seen, keeps its issues steadier. The surplus funds of one branch is lent out to another. The expenditure and savings of income are thus made to balance each other, without producing so much derangement in the currency.

A bank indeed may be too large. To be very useful to the public, it must have an intimate knowledge of individual credit; and one board of directors can only know the people of a very small part of the kingdom. But the public soon discover whether a bank can attend properly to them or not, and when it has more business than it can manage its business leaves it:

so that there is a very effectual restraint upon the business which any bank can undertake—it cannot obtain more than it can properly transact. But the larger it is, consistent with good management, the better.

It will thus be evident, that the act does not provide properly for the wants of the country. First, while it permits the establishment of joint stock banks, it throws a stumbling block in the way of their being formed; and next, it has the tendency, so far as it may prove a practical measure, to encourage the formation of banks without sufficient capitals; while, what the country particularly wants, is a number of large banks, in different parts of the kingdom, to sustain and support our system of private banking, and also to give the public in every place, by means of their branches, a choice of dealing with a public bank, if they think proper.

Not that we have any idea that the public banks would so materially injure the private banks as some imagine. Private banks, in good credit, have an advantage over public companies, in the secrecy and greater civility and attention they pay to their customers. The intermixture besides, of the public companies, would practically have the effect of increasing the confidence of the public in the private banks. What those which enjoyed public confidence lost in amount of their business, would probably be fully made up by the increased security and comfort with which they would afterwards do it.

The act was, no doubt, a very valuable step towards the improvement of our banking system, when passed. But, it was admitted, on this very point, of imposing unlimited responsibility on the shareholders, to be defective. Parliament ought, no doubt, to have been allowed to do what it thought best for the interests of

the public without any such restraint. But the clause was imposed by the bank of England when it consented to the relaxation of its charter.

As it has rendered the act, in a great measure inoperative, it seems now desirable that the bank should be requested to waive it. But if the directors are still unwilling to do so, we have no idea that it will be of much consequence, provided ministers think proper to grant charters to banks with the express condition, that the limitation of responsibility shall commence as soon as the bank charter expires; presuming them of course to have called up, in the mean time, a certain amount of capital.

This we believe, with a decided opinion expressed, and a disposition shown by ministers, to promote by their influence and patronage the formation of these companies, would be effectual in bringing about that improvement in our banking system, which appears not only desirable, but absolutely necessary to the well-being of the country.

It has been thought that in the event of limiting the responsibility of the shareholders in banks, they ought to be obliged to publish annually a statement of their affairs, or that some check for the public security should be imposed upon the amount of their transactions. One extreme is apt to beget another in legislation as in other things. From allowing private banks to exist without any regulations at all for the public safety, it is thus proposed to make surety doubly sure. But, let us consider what are the natural, if we may so term it, guarantees offered by a joint stock company, with the responsibility of the shareholders limited to the capital paid up. First, there is the capital which every body knows and can trust to, or not, as they please. Next, they are

managed by men well known, in general, as men of character, knowledge, experience, and ability, who can have no motive but a desire to give general satisfaction; and these men publish every year a statement of the affairs of the bank, as explicit as to whether the capital be entire or not, as any statement can be. This they do by making dividends of profits; and if the capital be not entire, and there be no profits, there can be no dividend.

The chief object of any check must be to secure the public against the fraud of directors: for if they be honest, or any one of them be honest, the public can never be in danger. The only fear is, that they may unite to deceive the public, by making dividends without profits; and that they should do this until the whole of a large capital was sunk. As if it were possible for the shareholders to be so far mistaken, as to chuse from ten to twenty men of fortune, character, and experience for directors, and yet there should not be one amongst them who did not prove, not merely a knave, but an egregious fool: for what could men of fortune gain by such conduct? But if we admit that the shareholders could get so far wrong, as to chuse such a board of directors, and the public, as to confide in a bank under their management, we do not believe that they could lose the capital without its being known.

A large capital in banking is not so easily thrown away. The losses of a bank are generally known, and always magnified. Any capital sufficiently large to obtain the bank business, we are persuaded could not be lost without the public knowing of it long before it was gone, or even materially diminished, in spite of any thing that a board of directors could do. Hence it does appear to us that while we allow private banks to

be set up without any known capitals, without any knowledge of the parties to whom their management is intrusted, and without any evidence whatever being furnished of their success, that it would be a very inconsistent piece of legislation, to clog joint stock banks at their outset with a number of inconvenient and embarrassing restraints, in order to provide against such improbable suppositions—restraints which can have but one practical effect, and that is, to prevent their being formed altogether.

Time no doubt, will point out improvements, which may be made with advantage, in the laws relative to these companies. But it seems desirable that they should be suggested by experience, and future consideration. A law framed to meet every speculative and suppositious difficulty, is certain to create a great many real ones.

We have thus ventured to explain the principles on which charters to limit the responsibility of the shareholders ought to be granted, in preference to banks being established on personal responsibility; and we have been more explicit on this subject than we should otherwise have deemed necessary, from our having perceived that an opposite opinion was gaining ground. At the same time, it is proper to mention, that the desirableness of granting such charters has been fully admitted by government.

Lord Liverpool (Feb. 17, 1826), in the debate on the bank charter amendment bill, states:—

" But, what was the system of banking in existence " at present? Why, the most rotten, the most inse- " cure, the very worst, in every respect, that could " possibly be conceived. Any petty tradesman, any " grocer, or cheesemonger, however destitute of pro-

" perty, might set up a bank in any place; whilst a " joint stock company, however large their capital, or " a number of individuals exceeding six, however re- " spectable and wealthy they may be, were precluded " from doing so by the present system. One more " absurd, therefore, he repeated, could not be con- " ceived."

" The beneficial consequences resulting from the " full liberty for banks to have any number of part- " ners, was manifested by its effects in Scotland. He " knew he might be told that it was in vain for him to " look to the example of that country, because they " had not the power of granting charters. But the " Bank of England had consented to allow the restric- " tion as to the number of partners in country banks " to be removed. But, he trusted, that if they did not " think it prudent to establish branches themselves, " they would not suffer the people to wait until the " year 1833, exposed to the consequences of the pre- " sent system, but set the public free, by allowing the " crown to grant charters to public banks. He be- " lieved that it would not, in any respect, injure them; " but, on the contrary, while it would be attended with " the greatest advantages to the country at large, it " would be beneficial also in its consequences to the " bank itself."—*Hansard's Par. Debates.*

Mr Huskisson stated (Feb. 13, 1826) in the debate on the bank charter and promissory note acts, that " He " allowed that it would be a great improvement, if, " under a proper system, chartered banks were esta- " blished with only a limited liability."—*Hansard's Parliamentary Debates.*

Mr Peel in the same debate observed that " He " confessed himself sanguine in the hope, that gentle-

" men of property would be found, many more than " enough to execute the proposed plan, who would be " actuated not by the mere desire of profit, but by the " wish to see a better, firmer, and more useful system of " banking in their districts, and that they would lend the " assistance of their capital and their exertions to ensure " the success of such establishments. He most " sincerely trusted the great obstacles to such insti- " tutions, the want of a charter, would be removed. " He hoped that the directors of the bank would " seriously consider whether any great advantage could " result to themselves from the absence of charters in " the proposed establishments; and whether, on the " other hand, great advantages would not be afforded " to the country by their having that facility afforded them."—*Hansard's Parliamentary Debates.*

Should the present government be actuated by the same desire to improve our banking system, as was thus felt in 1826, there can be little doubt that such an improvement may be accomplished, even though the bank should persist in refusing to grant charters; and that the present government should not be influenced by the same desire cannot be conceived.

The Act for the withdrawal of all Notes under the value of Five Pounds from circulation.—Having thus examined the second measure proposed by Ministers for the improvement in our systems of banking and currency, we will now proceed to consider the third—the withdrawal of all notes under the value of five pounds from circulation. By this act, " all promisory notes payable to bearer on demand, issued by licensed bankers in England, or by the bank of England, for any sum less than £5, bearing a date previous to the 5th of February, 1826, or which may have been stamped

previous to that day, shall and may, continue to be issued or re-issued, and circulated *until the 5th day of April,* 1829, *and no longer.*"

Hence, on the 5th of April next year, all the small notes of the country banks must be withdrawn from circulation.

From the speeches of ministers on proposing this measure, it appears they considered that the increased issues of the country banks, in 1824 and 1825, had led to the over-trading and bubble mania of that period; that this spirit of speculation had produced a re-action, which had led to the panic; that it again had been increased by the groundless fears of the holders of small notes; and that the withdrawal of these from circulation would contribute to prevent the recurrence of such evils in future—it would place in the hands of the lower classes, a currency in which their confidence could not be shaken, and take from the banks in a degree, at least, the power of increasing and diminishing their issues. It had also become evident, that gold and notes would not circulate together; and it was desirable to withdraw the notes, in order to obtain, and maintain in the country, a larger quantity of gold coin.

We have already pointed out, what appears to us was the cause of the panic; and we will not stop, at present, to analyze the views which ministers entertained on the subject. We will, at once, proceed to consider how far the withdrawing the small notes from circulation is likely to have the effect of preventing such evils in future, and also what other consequences may be expected from the measure. We have no doubt that the ministers will be glad if it be proved, either by argument or experience, that the measure is

calculated to produce the good expected from it. But we are equally convinced,—it would be betraying great suspicion of their integrity to have any doubts upon the subject,—that if it should really be an objectionable one, they will be equally desirous to have the objections to it pointed out, in order that they may be considered before it receives its final accomplishment: for, though the act was passed two years ago, it has still, in a great degree, to be carried into practical effect —very few notes having, as yet, been withdrawn from circulation.

Thus, the three chief purposes expected from it are —1st, that it will contribute to prevent fluctuations in the currency and prices, which lead to panics; 2nd, that it will take away the chief fuel of panics, so that when they do occur, they will not so easily spread, and become general; and, 3rd, that it will preserve a larger quantity of gold in the country.

1st. With regard to preventing fluctuations, it must be obvious that, so far as the currency consists in gold, it can neither be increased nor reduced in quantity, by internal causes. It was, therefore, only reasonable to suppose that, so far as substituting gold for paper went, the measure would have the effect desired; but the ministers did not, at the time, sufficiently understand the workings of the currency.

We have already explained, that the proportion between the circulation in notes and in gold, must be at all times preserved. People pay into the banks what money they have, but they take out what they want; and they will not take gold when they want notes, nor notes when they want gold.

Now, so long as the circulation chiefly consists in bank notes, the banks must charge a fixed rate of interest; and so long as they are exclusively private banks,

they can lend money on no other securities in the country than bills. Hence, their issues must continue to enlarge and contract. If the currency were entirely gold, the savings of income could not be lent out above their value, more especially to only one class of borrowers. Much less likely is it to be so lent with the chief part of its paper issuable at pleasure. Let us then examine how the system will work, with the proposed intermixture of gold.

Suppose, for instance, I were to give a banker in the country an order to sell me a thousand pounds worth of stock, or say nine hundred, to avoid fractional parts. At present, he would get the stock or funds in London equivalent thereto, and I would take his notes, and his issues would be increased nine hundred pounds; but if the circulation consisted of only two-thirds of his notes, I should of course take only six hundred pounds in his notes, and three hundred in gold.

To supply the increased circulation of gold, he would, consequently, have to bring a proportionate quantity from London, and the transaction would stand thus—With three hundred pounds of the proceeds of the stock, he would obtain gold in London, to bring into the country, and the other six hundred he would keep himself, and supply me with his notes, in return for it. On the other hand, if I took in nine hundred pounds, two-thirds of which would consist in his notes, and the other third in gold, and ordered him to purchase stock for me, to that amount, six hundred pounds of the stock, or funds in London to purchase it, he would have to supply himself, and his issues would be contracted to that extent, while he would purchase three hundred pounds worth, by sending the gold up to London for that purpose.

If, instead of ordering him to purchase or sell stock, I, in the first instance, deposited the money with him, and he could not lend it out again; and, in the next, drew it out of his hands, without some other party having placed an equal amount with him, the effect would be the same. In the first place, his issues of notes being contracted six hundred pounds, he would have three hundred pounds more gold than he had any use for, which he would send up to London, to be employed on the Stock Exchange. In the next, his issues being increased six hundred pounds, he would have a demand for three hundred pounds worth more of gold to circulate with them, and would have to obtain that amount from London, and raise the money in the London money market, by the sale of stock, or otherwise to obtain it.

It is obvious, therefore, that though the gold in the kingdom would not be increased or diminished, yet the contraction and enlargement of issues, and fluctuations in prices, which, as we have seen, depend upon the country circulation, would still occur; with this additional evil—that, with a contraction of the currency, the gold would be driven up to London, and would create an abundance of money on the Stock Exchange; and on the other hand, when the currency was enlarged, a demand for money on the Stock Exchange, in order to obtain gold, would be experienced, and a scarcity of it be produced.

Now, it is this abundance and scarcity of money in London, that is the immediate cause of panics. Had the currency in 1824 and 1825 partly consisted in gold, it is evident that the scarcity of money which produced the panic, would have been very much increased.

Nor would the enlargement of issues in any material

degree have been prevented. It was not a voluntary one, as the ministers were led to suppose. If I chuse to sell out stock and take out the banker's notes, he cannot object if he mean to continue a banker; and if I draw money out of his hands, he must supply me, though he have, in part, to obtain money from London for that purpose. Should he in doing so have to make any great sacrifice by selling stock at a loss, he might be induced to prevent the enlargement of his issues, by withdrawing, in an equal degree, his advances made to other persons. But he must have managed his London account very ill if he were under any such necessity. Every banker reserves a sum in London sufficient to cover all such fluctuations. This he does not make any purchases of stock with; but lends it, from time to time, for short periods, at the best interest he can obtain. Out of this balance he would purchase the gold required; and neither lose the opportunity of extending his issues, nor incur the risk of disobliging any of his customers. Hence it is by no means probable, that the substitution of gold for the small notes, would have any material effect in preventing fluctuations in prices; while it would, by producing fluctuations in the money market of London, lead directly to the production of those panics which it is the very object of the measure to prevent.

Indeed a currency, entirely metallic, would not be totally free from objections, so long as our country banks have not credit to enable them to lend money on other securities than commercial bills.

When money, for example, became abundant, and could not be lent out on these securities, instead of the currency contracting in the country as at present, and no effect being produced in London, the surplus would

be all sent up to London to be employed on the Stock Exchange at any rate of interest that could be had; and on the other hand, when a demand for money, by a bad harvest or otherwise, arose in the country, instead of an increase of issues taking place, without the London money market being in any way affected as at present, the increased circulation of the country would occur at the expence of that of London, effected through the medium of the Stock Exchange, and a panic might be added to the other afflictions of the period. The value of the soundest system of currency would be subverted by such a system of banking as we have at present.

At all events, there can be little doubt the withdrawal of the one pound notes from circulation, will not prevent fluctuations, and so far from preventing panics, it will have a direct tendency to cause them.

2nd. As to the tendency of the measure to prevent the spreading of panics, as well as to remove that which is frequently an original cause of them, it must be evident, that the small notes are chiefly in the hands of the lower classes, who are easily alarmed and induced to run upon a bank; while, a panic thus begun is too apt to communicate itself to the other classes. With a gold circulation, they, of course, could not either take root, or be aggravated from this cause. There could be no want of confidence in it. Hence, the substitution of sovereigns for small notes could not fail to be so far useful. It would take away the chief fuel, or most combustible material, by which panics are fed.

But taking away the one pound notes, is by no means coming at the root of the evil. The panic in the country was generated by the panic in London,

where the private banks do not issue any notes at all. There is no instance of a general panic originating with the holders of small notes. Besides which, there are no panics in Scotland, although the banks do issue one pound notes. An improvement in the stability of the banking system is evidently, therefore, what is required to prevent general panics; and if private banks should, in consequence of issuing one pound notes, continue to exist under the apprehension of, and should experience occasional runs, neither they nor the country will be the worse for it. A run which stops a weak bank before it becomes a rotten one, does no evil to the community; more especially if, as in Scotland, there is always a strong bank ready to take up its trade and supply its place.

It may be a good thing to remove the fuel of panic, but it is a better to extinguish the fire; and this is to be done by the establishment of public banks in different parts of the country—a measure which was contemplated at the passing of the bill in question; but which has hitherto been prevented for the reasons already pointed out.

And 3rd. As regards the effect of the measure, in keeping gold in the country.

In determining the value of this effect of the measure —an effect which it will undoubtedly have, it seems proper, in the first place, to ascertain the use of gold, when we have it. Now we know no other use of money, than as an instrument of circulation. When gold imported, has the effect of elevating the scale of our prices, and of enabling us to sell dear, and buy cheap, in trading with foreign nations, we can understand the value of gold, as a means of national wealth; but how we are, in the least, to be advantaged by having gold

instead of paper, when it merely answers the same purpose, we are at a loss to conceive. Were gold substituted for notes, it would become a fixture; it would never leave the country, but merely answer the same purpose that the paper had done before. It would add no more to the wealth of the nation, than golden leaves in his ledger would add to a merchant's profits. Any given scale of prices is as well produced by a paper, as by a golden instrument of exchange, provided the foreign demand for our manufactures will enable us to maintain it.

Hence, keeping gold in the country can be of no advantage as a means of national wealth.

But it may be advantageous as a national convenience—it may be a more practically useful instrument of exchange. Let us therefore determine whether it be so or not.

With this view, the most important point for consideration is, whether gold coin, or the bank notes it will supplant, be the most liable to be counterfeited.

Gold is not, or at least has not hitherto been, so liable to be counterfeited as silver. But the coiners are obtaining more skill in imitating it every day. The *Times* of the 18th of February says, " Scarcely a day " passes but numerous informations are received at the " different Police offices, from tradesmen, of having " taken bad sovereigns. Females, respectably dressed, " are generally described as the utterers, and with " considerable success, the base coin being uncommon- " ly well executed."

Now, if base coin can be passed in the shops of London, where suspicion is always alive, the best means of trying its quality exists, and the knowledge of the difference between good and bad is improved by hourly

experience, how much more likely is it to be passed with success at country fairs and other places, amongst comparatively simple and inexperienced people. There can be no doubt that if the circulation of gold were general throughout the country, that the crime of counterfeiting it would be most materially increased. Whereas, it is very well known, that the forgery of the English country bank notes, which generally have a limited circulation—easily as many of them might be forged, is not by any means a matter of common occurrence; nor is it too much to say that the forgery of bank notes may be altogether prevented. The enquiries upon the subject have hitherto been directed to the obtaining of a note which *could not*, by any possibility, be forged; and this was found impracticable. But it was entirely overlooked, that notes might be had which *would not* be forged, and this would do quite as well.

We were led by an official situation, into a practical acquaintance with the subject, and in another publication,* have succeeded, we believe, in satisfying every reasonable mind, that the prevention of forgery is not so very impracticable as has been supposed. It is, we understand, the intention of a member of considerable talent, who represents a northern county, to bring the subject before parliament, and we hope he will do so. If the crime of forgery can, it ought to be prevented; and though the enquiries on the subject have hitherto led to no useful result, improvements are continually making in every art, and what was impossible some years ago may be very possible now.

At all events, as regards the English country bank

* Essay on Banking, 6th edition, pages 117 to 133.

circulation, there cannot be any doubt, that substituting gold for notes, would increase rather than diminish the crime of counterfeiting.

The next point of comparison is, with regard to the integrity of their value. This, bank notes preserve entire, and never require any other trouble than counting. Whereas, gold coin wears down after it has been some time in circulation, and not only loses its original value, but comes to have different values. It therefore becomes necessary to weigh every piece of coin; for which purpose, every man who has much money to receive, must carry a pair of scales in his pocket; while those who do not do so, frequently find themselves in possession of light money, which they cannot pass with honor, or get rid of without trouble, independent of the loss. Hence gold after it has been a few years in circulation, becomes, compared with paper, an intolerable nuisance. Besides this, paper is lighter, and in other respects more portable and convenient.

The measure, therefore, will not introduce a more, but a less useful and convenient instrument of circulation, and has nothing to recommend it on that head.

We have thus seen—1st. That the measure will not prevent fluctuations in the currency and prices. 2d. That it will not be so effectual a means of preventing panics, as establishing public banks; and 3rd. That while gold, as a substitute for paper, adds nothing to national wealth, it is an infinitely worse instrument of circulation.

And thus far, we believe, we have answered, or furnished an answer to almost every argument that has been, or can be used, in favor of the measure. How far the reasoning is conclusive we must leave to the

reader to determine. But we have by no means exhausted the objections to it. There are others which we have not yet stated, and these are—

1st. The gold currency will cost us, at least, two hundred and twenty-five thousand pounds per annum.

The ministers computed the circulation of small notes to be, at least, six millions. But in this computation they did not make any allowance for the stock which the banker finds it necessary to keep on hand. The amount obtained was computed from the average consumption by the wear and tear of actual circulation; but if we assign to each bank, a stock of 5,000 sovereigns over and above this amount, which is no great allowance, and take the number of banks at six hundred, it is evident that it will require three millions in addition to the six, to supply the place of the notes to be withdrawn, so that the total sum required will be nine millions.

Presuming each note to cost three half-pence, and to last only two years, it will make the cost in wear and tear of maintaining a paper circulation to be about 6s. per cent., which will not be more than the cost in the wear, tear, and loss, of a gold currency. Now, money permanently lent, is worth about 4 per cent; but presuming that the nation would only save $2\frac{1}{2}$ per cent. by a paper currency, the cost of nine millions of gold must be considered a standing charge upon the country of two hundred and twenty-five thousand pounds per annum.

2nd. The measure is objectionable, because it has a tendency to undermine our corn laws.

Ministers, when they proposed the measure, computed there would be sufficient gold in the country to supply the place of the one pound notes. They com-

puted the quantity in the country to be seventeen millions; and this they thought would be sufficient for every purpose.

But whatever surplus of gold there was, must have been in the bank of England; and if it had not nine millions to spare, the ministers were wrong in their estimate.

In London, as we have before mentioned, a greater proportion of gold cannot circulate, so long as the bank does not refuse to receive it, than sufficient to furnish small change for its notes. All money is continually passing through the hands of the different banks, and though the people always take in what description of money they have, they always take out that description which is most convenient to them, and they never trouble themselves with sovereigns, when notes will answer their purpose. Hence, whenever the gold in circulation becomes excessive, compared with notes, the bankers come to have an undue proportion of it, which they send to the bank to be exchanged for its notes, and *vice versa*.

The gold, in Lancashire, by the same rule, is remitted by the banks up to London, when they have too much of it, and sent from London to Lancashire, when a greater proportion is required. In other parts of the kingdom, there was no gold in circulation. Hence, it is clear, that whatever surplus of gold there was, at the time, was in possession of the bank. There was no more in circulation than the circulation required.

But, it is well known, that the seven millions of gold exported previous to the panic, had reduced the stock in the bank below what it considers a fair average amount for it to possess, and that it had no surplus whatever. It is, therefore, clear, that so far from hav-

ing a sufficient supply, to fill up the vacuum that would be caused by the withdrawal of the one pound notes, we had not a spare sovereign to apply to that purpose. It is therefore evident, that the whole of the nine millions required, must be obtained from abroad.

Now, we cannot obtain such a sum of money from abroad, without lowering the scales of prices in the countries in commercial connexion with us; and, by consequence, without increasing the difficulty we shall have, in maintaining by corn laws, our scale of prices at 62s. per quarter.

We know of no sufficient reason why, in our trade with other countries, 60s. Winchester measure, should be as high a price in 1828, as 80s. was in 1815, except that we have taken from those countries, since the war, upwards of twenty millions of their circulating medium, and reduced their scale of prices so low, that they cannot purchase our manufactures, unless at a level of prices reduced in a corresponding degree. Their improvements in manufacturing skill, combined with the lower price of labour, and most other things which enter into the cost of manufactures, by enabling them to furnish themselves with some articles cheaper at home, may have in part contributed. But whether they have not the means of purchasing our manufactures at a higher price, or whether they can supply themselves cheaper at home, is of no consequence. By drawing more money from them and reducing their scale of prices still lower, we at once contribute to both these effects. We not only diminish their power of purchasing our manufactures, but we increase their power of under-manufacturing us in those articles in which a rivalry exists.

Now, to do this would be very inconsistent, while we

are attempting to keep up our scale of prices by corn laws. It is important, with a view to the adjustment of all internal contracts, that our prices should be kept up at 62s.; and it is somewhat doubtful, that our manufacturing superiority will enable us to keep them at that level. We ought rather, therefore, to be desirous to part with some of the gold we have, in order that the level of prices in other countries might be raised, and our scale of prices keep at 62s. with less difficulty. With a proper system of currency, one half the gold we have would be ample. The rest would be of no more real value to us, than as much old iron; and it would be a folly not to let it circulate in other countries, if we could render effective by it, any laws which we conceive it desirable to enact for the general good.

At all events, to pass one law to keep our prices up, and another to undermine and keep them down, could never be intended. The measure is, therefore, objectionable, because it must have the latter effect.

3rd. The measure is objectionable, because it cannot properly be carried into effect without another agricultural distress.

In the first place, gold cannot be purchased in other countries, and imported, merely because we want it. The bank, indeed, can never purchase gold in any other place than London; and it can always purchase it in London when the balance of payments is in our favour. When it is imported it is taken to the bank, because it is less troublesome than taking it to the mint; and, because large notes are wanted for it in the first instance. The gold is, therefore, brought to it when the balance of payments is in our favour, without any trouble on its part.

But we shall suppose the balance not to be in our

favour—that our exports amounted to 30 millions, and our imports to the same; so that the balance was neither for nor against us. Let us then suppose, that this being the case, the bank wished to purchase nine millions of gold in France and Holland. If we consider for a moment, we shall find that the bank could not, under such circumstances, make any such purchase.

It is clear, that if it did make the attempt, the gold must be paid for with commodities exported. The bank would purchase bills upon France or Holland, drawn for commodities; and these bills it would remit to purchase the gold with. But this would not increase our exports. It would only add nine millions to our imports. Our imports, inclusive of gold, would be 39 millions, while our exports were only 30 millions. The balance of payments would be consequently turned against us to the extent of nine millions; and the bank would experience a demand for gold to be sent out of the country to the extent of the sum of gold it had imported. The whole would, therefore, be sent back to the places from whence it came.

It is clear, that without the balance of payments be in favour of the country, in consequence of the amount of its imports being less than the amount of its exports, that the bank cannot increase its stock of gold.

Hence, in order to obtain nine millions of gold, our imports must be diminished, and our exports increased; and we come to the question, how is this to be produced? How shall the people of this country be compelled to consume a smaller quantity of foreign commodities, while foreigners shall be induced to purchase a larger amount of our manufactures?

There is but one way in which this can be brought

about, and that is by producing a general fall in prices. This would, at once, cheapen our manufactures to foreigners, and diminish our power of purchasing foreign commodities. It was the way in which we obtained the importation of gold in 1815 and 1816, and in the years 1819, 1820, 1821, 1822, and 1823. The agricultural class, and those dependent on them, being half ruined, were compelled to reduce their consumption of foreign commodities; while the amount of our exports, if they did not materially increase in their value, did not fall off. They increased in quantity adequate to their fall in price.

It is very well understood by the bank directors that their only way to cause a balance of payments in our favour is, by a contraction of their issues; and they must be equally conscious that a contraction of their issues, if it have the effect they expect upon the country banks, must produce a general fall of prices. It is clearly the result of all experience, as well banking as otherwise, that we can only obtain gold by reducing our scale of prices sufficiently low for that purpose. The next question, therefore, is, how low that must be, to obtain the amount required.

By a fall in price, from the average of 106s. in 1813, to 63s. in 1825, we obtained seven or eight millions of gold. By a fall from 83s. in 1818, to 43s. in 1822, we obtained about twenty-five millions. But as part of this was re-exported, it will be more proper to say, that, by a fall from the average of 80s. to the average of from 50s. to 60s., we obtained about sixteen or eighteen millions, which did not leave us. Making a rough estimate from this, and, taking into account that the balance is not in our favour, if it be not against us at the present time, when prices are not much above 50s.,

we are warranted in the inference, that we cannot obtain nine millions more of gold as a permanent addition to our stock, without the scale of our prices be reduced for a few years at least to 40s. or 35s.; and this of course would produce another period of agricultural distress.

4th. The measure is objectionable, because it must produce another panic, or a suspension of cash payments.

The amount of notes in circulation, previous to the panic, was estimated to be at least six millions, besides, of course, the stock of notes on hand, and the stock of stamps unused. We may estimate the stamps unused, at a million. The banks have also, since they could obtain no more stamps, re-issued many of their old notes, which they had laid by as done with. These we may also estimate at a million—making a supply of two millions, in addition to the stock of notes on hand, and in circulation. Now, we do not imagine that the quantity worn out, in the last two years, will exceed two millions, or one year's ordinary consumption: for the bankers, in consequence of not being able to replace them with new ones, have kept the old notes in circulation, until they are ready to fall in pieces in the hand. There is probably, therefore, not a much less amount of small notes in circulation now than six millions; but, to be within the truth, we will suppose the amount to be only four millions. These will have to be taken out of circulation, and replaced with gold, before April, 1829; and, besides this, allowing, as before stated, to each bank only five thousand sovereigns, as the stock in its drawers, they will have to supply themselves with at least three millions more. So that, on the most moderate computation, seven millions of

gold will have to be obtained by the country banks, in little more than twelve months from this time.

Their only way to obtain this supply is to send up to London for it. Stock or other securities must be disposed of on their account in the money market, and with the proceeds the gold must be obtained of the bank of England.

Without stopping at present to consider whether the bank can supply seven millions of gold or not, let us first consider whether seven millions of money can be raised in the money market; presuming, of course, that the bank can supply the gold, and that on doing so, it will cancel its notes, which is, strictly speaking, its most legitimate course.

Except what is hoarded, all the money in London must either be in circulation, or in the bankers' hands. There is none on the Stock Exchange. It is merely the place where the bargains for the purchase and sale of stock are concluded. Now, neither money hoarded nor yet in circulation is in the money market. The money in the money market is that which may be borrowed or is applicable to the purchase of stock, and this is always obtained by cheques on bankers. Hence, the only money in the money market is that which is in the bankers' hands, or rather in their drawers; for the chief part of that, which in common parlance is said to be in their hands, is not, as we have before stated, in existence.

But bankers in London do not find it necessary to keep so large an amount of cash in their drawers in proportion to their business, as if situated in the country—as the bankers in Lancashire do for instance. The facility of borrowing and lending on the Stock Exchange, almost from day to day, prevents this necessity.

The greater part of the transactions of the bankers amount to a mere change of securities. A cheque upon one bank for any amount, is sure to be paid into another; and if the funds of one are reduced thereby, those of another are increased. If one has in consequence to borrow money, or draw in money lent upon the Stock Exchange, another has an equal surplus to lend; so that all cheques for money not wanted to be sent out of London, merely produce a change of securities amongst the bankers.

But when gold is wanted to be sent into the country, the money is not taken out of one bank to be put into another—it is taken to the bank of England to obtain the gold with; and the notes are cancelled. Hence the question is, have the bankers in London seven millions in their drawers to spare for that purpose? If they have not, the money cannot be raised in the money market.

Seven millions would be a hundred thousand pounds for each bank; and we should conceive, for the reasons stated, that not only have they not a hundred thousand pounds to spare, but that they cannot have more than that sum altogether. It is even probable twenty thousand pounds each, upon the average, would reduce the money in their drawers below the amount they would like to have there. It is not the business of a banker to have an unnecessary stock of money in his bank. When any party means to draw a very large cheque, he generally gives him a day or two's notice.

Hence, as the country bankers drained the London banks of money, which they could not replace on the Stock Exchange, they would be obliged to withdraw their loans to their customers; and thus take the money out of current circulation. Their customers, in or-

der to raise it, would be obliged to bring their stocks of goods into market; while there being no mercantile buyers, or buyers to hold, in consequence of the scarcity of money, which all would feel, the consumptive demand would be forestalled, and the goods would have to be forced on to the market at any price. This being the case, all orders would be suspended until the stocks on hand were disposed of, and a general stagnation of trade, and want of demand for manufactured goods, would be experienced throughout the country. These would also be accompanied by a great fall in the price of stocks, and universal embarrassment.

There are always some banks that are worse off than others upon such occasions. These would stop, and then there would be a run upon all; by which others would be compelled to stop, and a general panic would be brought on.

Thus, it is not difficult to perceive, that if funds for the purchase of seven millions of gold, have to be obtained by the country bankers in the money market of London, in the next twelve or thirteen months, that another panic is quite inevitable, unless indeed the bank should re-issue its notes at interest in the purchase of exchequer bills, &c. as fast as they come in upon it in a demand for gold.

This would, no doubt, prevent the evil. While the bankers on the one hand disposed of securities for notes in order to purchase the gold, the same notes would be re-issued directly or indirectly in the purchase of securities. It would make but little difference in which way the bank re-issued the notes, they would come directly or indirectly into the London bankers' hands; who, in consequence, would feel no inconvenience whatever from the operations of the country banks.

It practically would amount to this—the country banks would turn over seven millions of securities to the Bank of England, and would obtain gold for them. While the circulation of London and money in the money market would remain as before.

But it is not probable that the bank has 7 millions of gold. If we assume that it had 5 millions at the panic; that 2 millions of the amount issued at that period was hoarded, and has not yet been returned to it; (for we understand that some of the country banks paid away large sums in gold, which they cannot perceive has been returned into circulation) and also assume that it has increased its stock three millions since then, it will have only six millions. At any rate, it does not seem unreasonable to suppose it very possible, that the bank at this moment has not seven millions of gold; and that such a demand upon it would render a suspension of cash payments inevitable. Besides, with a balance of payments against the country, or with the possibility of its going against the country, the bank could not allow itself to be drained so low, as supplying a demand for seven millions of sovereigns would drain it, without a previous order of government to suspend cash payments whenever its safety required it so to do.

But it may be enquired, how could the bank prevent such a demand, should the government not give such an order? Nothing would be more easy. All it has to do, is to allow its circulation to contract; and the country bankers could not, by any sacrifice upon the Stock Exchange, obtain seven millions of its notes. So long as the bank maintains its credit, and has no run upon it from it from distrust, three or four millions is probably the largest demand for gold it can, in that case, experience. The demand for gold, which led to

the last panic, was for seven millions. But the bank re-issued its notes to the extent of half that amount, and the panic was produced by a contraction of its issues to the extent of the other half only.

By allowing its issues to contract, the bank, of course, would save itself at the expence of the nation. It might, by such a course, keep clear of danger, but the nation would be convulsed from end to end. Still that would not be the fault of the bank, if the nation would not render it safe in the event of its adopting a different course, by authorising it to suspend cash payments. The bank must take care of itself; and must be guarded against the consequences of measures which it does not adopt for its own sake, but that of the country.

Hence the measure, as it now stands, must lead either to another panic, or to a suspension of cash payments, and that too, not for a very limited period.

It thus appears that the act for withdrawing the small notes from circulation will not be a beneficial, but a very hurtful measure. While it will not prevent fluctuations and panics in the way ministers expected, and will substitute an expensive and inconvenient for a cheap and convenient instrument of circulation, it will also, in the way which ministers certainly did not expect, undermine our corn laws, produce another agricultural distress, and either another panic or another suspension of cash payments.

It is unnecessary, therefore, to observe, that it ought without delay to be either modified or repealed. It appears to us, indeed, that it would be better to repeal it altogether.

The circulation is at present deficient, and it is desirable to increase it. The sooner our prices are at

62s. the better for all classes—for the labouring poor as well as for the agriculturists. A low price of corn can only be desirable when it is the result of abundance; and not when it both checks its production at home, and prevents its importation from abroad. Nothing can be more mistaken than to suppose, that the working manufacturers, and poor in towns, benefit by the ruin of the agriculturists. Quantity is what they want. It makes no difference at what price. As we have before explained, the price must always be determined by the money which the working classes themselves have to give for it.

It must also be evident to the advocates of a free corn trade, that since the importation of foreign corn is not to be allowed under a given price, the sooner it is at that level, and we enjoy the extent of corn trade the law will permit, the better. They will, no doubt, admit that half a foreign loaf is better than none.

We are not, as has been seen, amongst the advocates of a free corn trade; but we think that there can be no doubt that the sooner prices are at their proper level the better; and it is evidently the duty of the legislature, as far as it is in its power, to restore them to that level as soon as it can.

One means of doing so would be to repeal the small note bill. The effect might not be very considerable; but it would be beneficial so far as it went, independently of avoiding the prospective evils which we have ventured to point out. At the present moment, indeed, every measure with reference to the currency, clearly ought, as far as possible, to contribute to its enlargement, and not to its contraction.

There is also another reason for its total repeal, which it may be proper to mention, and it is—that the

introduction of gold into circulation, can only be temporary.

We may venture, perhaps, to assume, that as soon as ever the currency can, without danger or inconvenience, be put upon a solid basis, and be regulated on the principles of a metallic currency, it will be so; and we have no idea that the time will be very long before this be effected. The Duke of Wellington is not a young man; yet we have little doubt that it will be accomplished under his auspices. Nor is it unworthy his attention. Our currency is our great inward enemy, which it is necessary to our prosperity as a commercial nation, should be subdued; and though the undertaking may not be so difficult, nor the achievement so brilliant, as those his grace has been accustomed to; its accomplishment will confer a lasting benefit on the country, do no discredit to his administration, and be at all events, a source of pleasing satisfaction to himself.

Now, when this event is accomplished—when our currency is put upon a solid basis, and issued upon right principles, and when as money it becomes quite as valuable to the public as gold, it is highly probable that all gold will be taken out of circulation, for two reasons.

1st. Paper is, or may be rendered, and will become a better instrument of circulation than gold—and when this is the case, government will be induced to give the public the option of having either gold or paper—as they, in fact, have at this present moment, except in London and Lancashire—and the gold will cease to circulate, because notes will be preferred; and

2nd. Because a gold currency is calculated to increase the evils resulting from scarcity; whereas with a paper currency this tendency of a gold currency may be counteracted.

When a scarcity occurs, and our population is starving, it becomes the only consideration how we can obtain the largest supplies of corn from abroad. With this view our ports are thrown open to the importation of it, duty free; and frequently a bounty is superadded to what other encouragements to importation, we are enabled to afford. The result of this is, that we generally get a large additional supply. But as it does not at all follow, that a scarcity of corn in this country, is to increase the consumption of our manufactures abroad, it generally happens, that the greater part, at least, of the additional supply thus obtained, has to be paid for with money.

The community may also be divided into two classes. Those who have fixed incomes in whatever way derived, or incomes which, though affected by circumstances, are sufficient to command the necessaries of life; and those whose means of subsistence depend upon the regular demand for manufactures, &c. &c. the consumption of which is certain to fall off upon any diminution of annual income.

It is not difficult to perceive that this latter class must always suffer most in a bad harvest. If a considerable portion of the former class should be in some degree pinched, in consequence of the rise in price that may occur, that will be all they will suffer. But a great portion of the latter will be thrown out of employment either in part or altogether.

It is clear, that the less the first mentioned or richer class have the power of consuming, the better for the other; and as the only means of diminishing their power of consuming is by an elevation of price, it must follow that the dearer corn is, in a scarcity, the better for the poorer class.

For example, suppose that one-half the means of support be destroyed; that no rise in price should, in consequence, take place; and that one-half of the community should just consume as much as before, it is clear that the other half would be starved to death.

Whereas, if the price of corn were to rise so high as to reduce the consumption of the richer class one-half, it is equally clear that the poorer class would get the other half. Hence, there is no exception to the general principle we endeavoured to establish in the former part of this work—that the higher the prices the better for the poor. It appears to be an advantage to them, even in years of famine.

The price of corn, in fact, is determined by the quantity of money the working classes have to give for it. The higher it is, therefore, the greater monied demand there must have been for their labour; and, of course, the greater demand there is for their labour, in a scarcity, the greater proportion will they obtain of the existing supply.

But, when foreign corn is paid for with money, though corn falls in price, the demand for manufacturing labour is diminished. An amount of income, which must, of necessity, have given employment to labour, at home, is spent, in giving rise to a foreign income, which is not consumed in this country. Hence, the manufacturing labourer is in a worse situation than before. Corn becomes cheaper; but his power of obtaining it is diminished in a still greater degree. The very act of increasing the supply, takes from him the power of purchasing it.

The importation, of course, benefits all those who have incomes, independent of labour, or who have fixed wages, not dependent upon the varying demands

of trade, or whose incomes are not so far reduced as to do more than curtail their expenditure in the luxuries of life. But the sufferings of that class, who were previously in the worst state, are not relieved, but rendered still greater, by the large importations of corn, which generally occur in a scarcity.

The bad effects of an importation of corn, thus paid for, do not end here. The farmer, in the first place, loses the price he would otherwise get for his crop, in the year of scarcity; while, in the next, the exportation of money produces a permanent depression of prices, from which they do not recover, until the money is, by degrees, re-imported, in consequence of the reduced scale of prices, diminishing our consumption of foreign commodities, and turning the balance of payments in our favor.

At present, as a scarcity of corn produces a scarcity of money, or the savings of income, the issues of our banks are generally increased, and the currency enlarged in a scarcity, although the balance of payments be against us at the time. But we can never get the gold back again, without a fall occurring afterwards to as great an extreme. By this, what is very properly termed a revulsion, is always produced; and both the manufacturing and agricultural classes in their turn suffer the greatest distress. So that if the currency be not contracted during the years of scarcity, with our present system, this is more than counterbalanced by the subsequent fall which generally takes place, and in fact, must take place before the gold can be re-imported.

Now, if our currency were paper payable in gold, but without any in circulation, the proper course in a scarcity would be to throw open the ports to corn, duty free, and hold out every possible encouragement

to its importation; but at the same time suspend cash payments, and prevent the gold from being exported, and the currency from contracting.

The effect of this would be, to prevent, in the first place, any money from being diverted from the employment of manufacturing labour at home. By this, injury would be prevented, both to the manufacturing labourer and farmer. The one would have more money to give, and the other would get more money for his corn. In the next place, as gold could not be obtained with which to pay for the corn, foreign bills of exchange would rise in value.

For example, suppose I were to send a thousand pounds worth of manufactured goods to the Continent, I should draw a bill upon the party for them to whom I sent them. This bill, if it could be obtained by a person importing corn from the Continent, would pay for a thousand pounds worth; and as corn could be imported duty free, and would bring so high a price besides, a great many persons would be desirous to import it, provided they could obtain the means of paying for it. They all consequently, as they could not get gold with which to pay for it, would be desirous to have my bill, and instead of offering me a thousand pounds for it—the sum for which it would be payable in gold upon the Continent, they would bid one against another, until I should perhaps obtain eleven or twelve hundred pounds for it. They would calculate, that the loss they would thus have upon the bill, would be much more than made up by the extraordinary profit they should make upon the corn.

The effect of this would be, that I should immediately ship off another adventure of goods to the Continent: for though I should sell them considerably be-

low prime cost, I should still make a profit by the sale of my bill.

A premium would by this means be given for the exportation of manufactures. The manufacturing labourers would thereby obtain additional employment, by which they would acquire the means of purchasing the foreign corn imported. Instead of its coming to aggravate, it would come to relieve the distresses of that class upon whom the scarcity would press hardest; while the relief would be afforded without injury to any other class of the community.

This policy is so obvious, that there cannot be any doubt, when our currency is put on a right footing, and the subject properly understood, all gold will be taken out of circulation; and as extremes are apt to beget each other, it is by no means improbable that the present pretty general feeling, in favor of excluding notes, under five pounds, will be superceded by an equally strong desire to try the experiment of issuing them for five shillings.

If, therefore, our currency, which no one can doubt, must, and that too, at no very distant period, be made secure, and be put under proper regulations, the introduction of gold into circulation, at present, must be, comparatively speaking, a very temporary measure, both for the above reason, and because paper, as before mentioned, is a better instrument of circulation. Hence, if it were, so far as it went, an improvement, it would still not be worth obtaining by any sacrifice. For this, therefore, as well as the different other reasons pointed out, we venture to submit that a total repeal of the act in question, or, a modification of it equivalent thereto, would be desirable.

APPENDIX.

An account of the state of the crops, from 1819 to 1824, abstracted from the Farmer's Magazine; together with the state of the prices, and demand of the country bankers for stamps, in each succeeding year: the crop of each year, it being remembered, affecting the prices of the year following.

State of the Crops from the Farmer's Magazine.	*Annual Demand for Stamps by the Country Bankers.*	*Aver. Price of Wheat per Quarter*
1809.—Wheat, in many districts of Scotland, is not superior as to quantity, and much coarser as to quality, than the preceding year; but, in England, it is generally inferior, perhaps to the extent of $\frac{1}{4}$ below a common average.	10,517,519	105s.
1810.—Taking it as a whole, the crop may be estimated as of superior quality. To be more particular, wheat, almost in every case, is excellent as to grain; but, in many districts, it was thin on the ground, especially on clay soils, and by no means so productive as the years 1804, 5, 6, and 7.	8,792,433	93
1811.—The wheat crop is, more or less, defective in every district, but more so in some districts than in others. By our accounts, it can hardly be estimated above 5-8ths of an average; but what is surprising, the quality of the grain is generally good, which seldom occurs when the crop is a failing one.	10,577,134	125

	Annual Demand for Stamps by the Country Bankers.	Aver. Price of Wheat per Quarter
1812.—Perhaps it might not be far from truth to state wheat generally as an average crop. That which was secured in September, was very good, both in quantity and quality; but that which was not gathered before October, has suffered from the wind, rain, and frost.	12,615,509	107s.
1813.—The crop, over the whole island, abundant in quantity, and excellent in quality. Wheat is everywhere above an average crop.	10,773,375	74
1814.—There is every reason to believe, that the late crop of wheat and oats is considerably below an average one in regard to quantity; and that wheat, in particular, is still more inferior in quality.	7,624,949	64
1815.—A most abundant crop of all kinds of grain has been secured in the best condition.	6,423,466	75
1816.—Wheat is universally reported as a defective crop, both in quantity and quality; probably still more in the latter than the former, but altogether to the extent of one-third, and in many instances one-half.	9,075,958	94
1817.—The wheat of this year though greatly superior to that of last year, is not so far as we have seen, to be compared with the produce of favourable years, for plumpness, colour, or weight. It is beyond all doubt, that the crop is not equal to an average one.	12,316,868	83
1818.—Although the stack-yards are certainly defective in bulk, the produce in grain will be found fully equal to an average crop.	5,640,313	72
1819.—In shallow hot soils, and in more early situations, the grain is in many respects of an inferior description. In districts where crops do not fully ripen but in very favourable seasons, and on deep moist soils, the produce good and abundant. In Scotland, the crop fully equal to an average one.	3,574,894	65

	Annual Demand for Stamps by the Country Bankers.	Aver. Price of Wheat per Quarter
1820.—Taking all kinds of grain together, there can be no doubt that the produce is at least equal in quantity to that of seasons of medium fertility. Wheat especially is represented as an abundant crop, though it has suffered in some situations from mildew, and from being laid by heavy rains in the early part of the autumn; but in point of quality, it is perhaps rather inferior to the produce of the former years, even where no reason is assigned. The want of heat during the ripening is, perhaps sufficient to account for this.	3,987,582*	54s.
1821.—In quantity, taking all kinds of grain together, it will probably not be below an average; but in quality, it will. The wheat is the best crop of all, but smut, rust, and mildew, have been more general than usual.	4,217,341	43
1822.—-Wheat seems to be everywhere a good crop; but, in Scotland, it is rather below that of last year, both in quantity and quality.	4,657,589	51
1823.—All crops have suffered, more or less, from the bad weather, but wheat has suffered the most, and must be below an average by 20 or 25 per cent., as far as it is yet possible to ascertain the deficiency.	6,093,367	62
1824.—It is now generally believed, that the crop is not much short of a fair average, and the quality excellent.	8,532,438	66

* If the notes of 1816 and 1817, were worn out in this and the following year, which is probable, the demand for stamps does not indicate the contraction of the currency which occurred.

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